

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2006 or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to .

Commission File Number: 1-14100

IMPAC MORTGAGE HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

33-0675505
(I.R.S. Employer
Identification No.)

1401 Dove Street, Newport Beach, California 92660
(Address of principal executive offices)

(949) 475-3600
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2) Yes No

There were 76,188,165 shares of common stock outstanding as of August 7, 2006.

IMPAC MORTGAGE HOLDINGS, INC.

FORM 10-Q QUARTERLY REPORT

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

[Consolidated Balance Sheets as of June 30, 2006 and December 31, 2005](#)

[Consolidated Statements of Operations and Comprehensive Earnings for the Three and Six Months Ended June 30, 2006 and 2005](#)

[Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2006 and 2005](#)

[Notes to Consolidated Financial Statements](#)

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

[Forward-Looking Statements](#)

[General Overview](#)

[Critical Accounting Policies](#)

[Financial Highlights for the Second Quarter of 2006](#)

[Financial Highlights for the First Six Months of 2006](#)

[Second Quarter and Year-to-date 2006 Taxable Income](#)

[Financial Condition and Results of Operations](#)

[Liquidity and Capital Resources](#)

[ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK](#)

[ITEM 4. CONTROLS AND PROCEDURES](#)

PART II. OTHER INFORMATION

[ITEM 1. LEGAL PROCEEDINGS](#)

[ITEM 1A. RISK FACTORS](#)

[ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS](#)

[ITEM 3. DEFAULTS UPON SENIOR SECURITIES](#)

[ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS](#)

[ITEM 5. OTHER INFORMATION](#)

[ITEM 6. EXHIBITS](#)

[SIGNATURES](#)

[CERTIFICATIONS](#)

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(dollar amounts in thousands, except share data)

	<u>June 30, 2006</u>	<u>December 31, 2005</u>
	<u>(Unaudited)</u>	
ASSETS		
Cash and cash equivalents	\$ 180,644	\$ 146,621
Restricted cash	661	698
Securitized mortgage collateral	20,508,825	24,494,290
Finance receivables	292,286	350,217
Mortgages held-for-investment	8,390	160,070
Allowance for loan losses	(68,072)	(78,514)
Mortgages held-for-sale	1,203,223	2,052,694
Accrued interest receivable	102,994	123,565
Derivatives	312,877	250,368
Other assets	205,720	220,370
Total assets	<u>\$ 22,747,548</u>	<u>\$ 27,720,379</u>
LIABILITIES		
Securitized mortgage borrowings	\$ 20,094,718	\$ 23,990,430
Reverse repurchase agreements	1,278,485	2,430,075
Trust preferred securities	97,225	96,750
Other liabilities	58,934	36,177
Total liabilities	<u>21,529,362</u>	<u>26,553,432</u>
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Series-A junior participating preferred stock, \$0.01 par value; 2,500,000 shares authorized; none issued and outstanding as of June 30, 2006 and December 31, 2005, respectively	—	—
Series-B 9.375% cumulative redeemable preferred stock, \$0.01 par value; liquidation value \$50,000; 2,000,000 shares authorized, 2,000,000 shares issued and outstanding as of June 30, 2006 and December 31, 2005, respectively	20	20
Series-C 9.125% cumulative redeemable preferred stock, \$0.01 par value; liquidation value \$109,280; 5,500,000 shares authorized; 4,383,900 shares and 4,371,200 shares issued and outstanding as of June 30, 2006 and December 31, 2005, respectively	44	44

Common stock, \$0.01 par value; 200,000,000 shares authorized; 76,112,963 shares issued and outstanding as of June 30, 2006 and December 31, 2005, respectively	761	761
Additional paid-in capital	1,168,634	1,167,059
Accumulated other comprehensive (loss) income	(330)	1,305
Net accumulated deficit:		
Cumulative dividends declared	(735,996)	(675,373)
Retained earnings	785,053	673,131
Net accumulated earnings (deficit)	49,057	(2,242)
Total stockholders' equity	1,218,186	1,166,947
Total liabilities and stockholders' equity	<u>\$ 22,747,548</u>	<u>\$ 27,720,379</u>

See accompanying notes to consolidated financial statements.

1

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE EARNINGS
(in thousands, except per share data)
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
INTEREST INCOME:				
Mortgage assets	\$ 311,263	\$ 308,339	\$ 644,639	\$ 584,360
Other	2,496	1,446	4,325	2,804
Total interest income	313,759	309,785	648,964	587,164
INTEREST EXPENSE:				
Securitized mortgage borrowings	302,744	216,255	598,219	395,722
Reverse repurchase agreements	23,456	25,982	49,329	42,744
Other borrowings	2,306	1,395	4,688	1,439
Total interest expense	328,506	243,632	652,236	439,905
Net interest (expense) income	(14,747)	66,153	(3,272)	147,259
Provision for (recovery of) loan losses	(45)	5,711	105	11,785
Net interest (expense) income after provision for (recovery of) loan losses	(14,702)	60,442	(3,377)	135,474
NON-INTEREST INCOME:				
Realized gain (loss) from derivative instruments	55,868	(1,456)	96,004	(15,183)
Change in fair value of derivative instruments	11,504	(97,679)	62,933	33,639
Gain on sale of loans	16,548	19,094	30,741	31,945
Provision for repurchases	(12,773)	(1,650)	(23,110)	(5,364)
Loss on lower of cost or market writedown	(18,780)	—	(15,283)	—
Other income	9,581	2,307	18,403	7,384
Total non-interest income (loss)	61,948	(79,384)	169,688	52,421
NON-INTEREST EXPENSE:				
Personnel expense	16,710	20,810	35,331	39,690
General and administrative and other expense	4,524	6,560	9,600	11,473
Amortization of deferred charge	5,915	6,792	11,011	12,595
Professional services	2,192	2,021	4,509	5,440
Equipment expense	1,809	1,236	3,319	2,383
Occupancy expense	1,244	1,171	2,612	2,315
Data processing expense	744	836	2,110	1,779
Amortization and impairment of mortgage servicing rights	381	736	732	1,026
(Gain) loss on sale of other real estate owned	(621)	20	(976)	(829)
Total non-interest expense	32,898	40,182	68,248	75,872
Net earnings (loss) before income taxes	14,348	(59,124)	98,063	112,023
Income tax benefit	(12,008)	(4,124)	(13,859)	(6,587)
Net earnings (loss)	26,356	(55,000)	111,922	118,610
Cash dividends on cumulative redeemable preferred stock	(3,672)	(3,624)	(7,344)	(7,248)
Net earnings (loss) available to common stockholders	<u>\$ 22,684</u>	<u>\$ (58,624)</u>	<u>\$ 104,578</u>	<u>\$ 111,362</u>

See accompanying notes to consolidated financial statements.

2

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE EARNINGS - (continued)
(in thousands, except per share data)
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Net earnings (loss)	\$ 26,356	\$ (55,000)	\$ 111,922	\$ 118,610
Net unrealized (losses) gains on securities :				
Unrealized holding (losses) gains arising during year	(991)	177	(1,778)	441
Reclassification of (losses) gains included in net earnings	(55)	—	143	—
Net unrealized (losses) gains	(1,046)	177	(1,635)	441
Comprehensive earnings (loss)	<u>\$ 25,310</u>	<u>\$ (54,823)</u>	<u>\$ 110,287</u>	<u>\$ 119,051</u>
Net earnings (loss) per share:				
Basic	<u>\$ 0.30</u>	<u>\$ (0.78)</u>	<u>\$ 1.37</u>	<u>\$ 1.48</u>
Diluted	<u>\$ 0.30</u>	<u>\$ (0.78)</u>	<u>\$ 1.37</u>	<u>\$ 1.46</u>
Dividends declared per common share	<u>\$ 0.25</u>	<u>\$ 0.75</u>	<u>\$ 0.50</u>	<u>\$ 1.50</u>

See accompanying notes to consolidated financial statements.

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the Six Months Ended June 30,	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$ 111,922	\$ 118,610
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Provision for loan losses	105	11,785
Amortization of deferred charge, net	11,011	12,595
Amortization of premiums, securitization costs and debt issuance costs	126,952	138,600
Gain on sale of other real estate owned	(976)	(829)
Loss (gain) on sale of loans	(30,741)	(31,945)
Provision for repurchases	23,110	5,364
Lower of cost or market writedown	15,283	—
Change in fair value of derivative instruments	(62,933)	(33,639)
Purchase of mortgages held-for-sale	(4,434,373)	(10,135,266)
Sale and principal reductions on mortgages held-for-sale	5,274,041	9,464,660
Net change in deferred taxes	83	(1,990)
Share based compensation	1,332	—
Depreciation and amortization	3,018	2,205
Amortization and impairment of mortgage servicing rights	732	1,026
Net change in accrued interest receivable	20,571	(11,518)
Net change in restricted cash	37	252,957
Net change in other assets and liabilities	35,120	(15,848)
Net cash provided by (used in) operating activities	<u>1,094,294</u>	<u>(223,233)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in securitized mortgage collateral	3,801,928	(2,814,965)
Net change in finance receivables	57,931	88,920
Purchase of premises and equipment	(3,932)	(3,892)
Net change in mortgages held-for-investment	149,507	344,288
Purchase of investment securities available-for-sale	36,781	(28,269)
Net change in mortgage servicing rights	(495)	(711)
Purchase of investments for deferred compensation plan	—	(2,485)
Net principal reductions on investment securities available-for-sale	(30,422)	1,173
Proceeds from the sale of other real estate owned	39,402	25,107
Net cash provided by (used in) investing activities	<u>4,050,700</u>	<u>(2,390,834)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in reverse repurchase agreements	(1,151,590)	204,708
Proceeds from securitized mortgage borrowings	905,779	7,109,346
Repayment of securitized mortgage borrowings	(4,823,835)	(4,796,916)
Issuance of trust preferred	—	76,202

Common stock dividends paid	(34,253)	(56,748)
Preferred stock dividends paid	(7,344)	(7,248)
Proceeds from sale of cumulative redeemable preferred stock	272	—
Proceeds from exercise of stock options	—	5,626
Net cash (used in) provided by financing activities	(5,110,971)	2,534,970
Net change in cash and cash equivalents	34,023	(79,097)
Cash and cash equivalents at beginning of period	146,621	324,351
Cash and cash equivalents at end of period	\$ 180,644	\$ 245,254

4

IMPAC MORTGAGE HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

	For the Six Months Ended June 30,	
	2006	2005
SUPPLEMENTARY INFORMATION:		
Interest paid	\$ 517,438	\$ 378,362
Taxes paid	45	17,759
NON-CASH TRANSACTIONS:		
Accumulated other comprehensive (loss) gain	\$ (1,635)	\$ 441
Transfer of mortgages to other real estate owned	72,143	35,478
Dividend declared but unpaid	19,028	56,747

See accompanying notes to consolidated financial statements.

5

Note A—Summary of Business and Significant Accounting Policies

1. Business Summary and Financial Statement Presentation

Business Summary

Unless the context otherwise requires, the terms “Company,” “we,” “us,” and “our” refer to Impac Mortgage Holdings, Inc. (IMH), a Maryland corporation incorporated in August 1995, and its subsidiaries, IMH Assets Corp. (IMH Assets), Impac Warehouse Lending Group, Inc. (IWLG), and Impac Funding Corporation (IFC), together with its wholly-owned subsidiaries Impac Secured Assets Corp. (ISAC) and Impac Commercial Capital Corporation (ICCC).

We are a mortgage real estate investment trust, or “REIT,” that is a nationwide acquirer, originator, seller and investor of non-conforming Alt-A residential mortgages or “Alt-A mortgages” and to a lesser extent, small-balance commercial mortgages or “commercial mortgages” and sub-prime residential mortgages. We also provide warehouse financing to originators of mortgages.

We operate four core businesses:

- the long-term investment operations that is conducted by IMH and IMH Assets;
- the mortgage operations that is conducted by IFC and ISAC;
- the warehouse lending operations that is conducted by IWLG; and
- the commercial operations that is conducted by ICCC.

The long-term investment operations generate earnings primarily from net interest income earned on mortgages held as securitized mortgage collateral and mortgages held-for-investment (long-term mortgage portfolio). The long-term mortgage portfolio as reported on our consolidated balance sheets consists of mortgages held as securitized mortgage collateral and mortgages held-for-investment. Investments in Alt-A mortgages and commercial mortgages are initially financed with short-term borrowings under reverse repurchase agreements, which are subsequently converted to long-term financing in the form of securitized mortgage borrowings. Cash flows from the long-term mortgage portfolio and proceeds from the sale of capital stock also finance the acquisition of new Alt-A and commercial mortgages.

The mortgage operations acquire, originate, sell and securitize primarily Alt-A adjustable rate mortgages (ARMs) and fixed rate mortgages (FRMs) and, to a lesser extent, sub-prime residential mortgages from correspondents, mortgage brokers and retail customers. Correspondents originate and close mortgages

under their mortgage programs and then sell the closed loans to the mortgage operations on a flow (loan-by-loan) basis or through bulk sale commitments. Correspondents include savings and loan associations, commercial banks and mortgage bankers. The mortgage operations generate income by securitizing and selling mortgages to permanent investors, including the long-term investment operations. This business also earns revenue from fees associated with mortgage servicing rights, master servicing agreements and interest income earned on mortgages held-for-sale. The mortgage operations use facilities provided by the warehouse lending operations to finance the acquisition and origination of mortgages.

The warehouse lending operations provide repurchase financing to mortgage loan originators, including the mortgage and commercial operations, by funding mortgages from their closing date until sale to pre-approved investors. This business earns fees from each transaction as well as net interest income from the difference between its cost of borrowings and the interest earned on repurchase advances.

The commercial operations originate commercial mortgages, that are primarily adjustable rate mortgages with initial fixed interest rate periods of two-, three-, five-, seven- and ten-years that subsequently adjust to adjustable rate mortgages, or "hybrid ARMs," with balances that generally range from \$500,000 to \$5.0 million. Commercial mortgages have interest rate floors, which is the initial start rate, in some circumstances have lock out periods, and prepayment penalty periods of three-, five-, seven- and ten-years. These mortgages provide greater asset diversification on our balance sheet as commercial

6

mortgage borrowers typically have higher credit scores and typically have lower loan-to-value ratios, or "LTV ratios," and the mortgages have longer average lives than residential mortgages.

The Company securitizes mortgages in the form of collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICs). The typical CMO securitization is designed so that the transferee (securitization trust) is not a qualifying special purpose entity (QSPE) and thus as the sole residual interest holder, the Company consolidates such variable interest entity. Amounts consolidated are classified as securitized mortgage collateral and securitized mortgage borrowings in the consolidated balance sheets. Generally, the typical REMIC securitization qualifies for sale accounting treatment and the securitization trust is a QSPE and thus not consolidated by the Company. In the event that a REMIC securitization trust does not meet sale accounting and QSPE criteria, the securitization is treated as a secured borrowing and consolidation is assessed pursuant to FIN 46R.

In 2005 and 2006, we completed ISAC REMIC 2005-2 and ISAC REMIC 2006-1 securitizations which were treated as a sale for tax purposes but treated as secured borrowings for generally accepted accounting principles (GAAP) purposes and consolidated in the financial statements. The associated collateral and borrowings have been combined with CMO's and included in securitized mortgage collateral and borrowings, respectively, for reporting purposes. Hence, reference to "securitized mortgage collateral" or "securitized mortgage borrowings" includes the REMIC 2005-2 and 2006-1 securitized collateral and borrowings, respectively.

In the second quarter of 2006, we completed ISAC REMIC 2006-2 securitization in the amount of \$834.0 million which was treated as a sale for both tax and GAAP purposes. Residual interest of approximately \$29.8 million, calculated as present value of estimated future cash flows retained as a result of the ISAC REMIC 2006-2 securitization, was recorded in other assets on the balance sheet. As of June 30, 2006, the tax basis value of our residual interests from securitization transactions was \$116.4 million. Investments in residual interest and subordinated securities represent higher risk than investments in senior mortgage-backed securities because these subordinated securities bear all credit losses prior to the related senior securities. The risk associated with holding residual interest and subordinated securities is greater than holding the underlying mortgage loans directly due to the concentration of losses attributed to the subordinated securities. The value of residual interests represents the present value of future cash flows expected to be received by us from excess cash flows created in the securitization transaction. In general, future cash flows are estimated by taking the coupon rate of the loans underlying the transaction less the interest rate paid to the investors, less contractually specified servicing and trustee fees, and after giving effect to estimated prepayments and credit losses. We estimate future cash flows from these securities and value them utilizing assumptions based in part on projected discount rates, delinquency, mortgage loan prepayment speeds and credit losses.

In January 2006, we combined our Alt-A wholesale and sub-prime residential mortgage product offerings under one platform. Our sub-prime residential mortgage products previously marketed under Novelle Financial Services, Inc., are now offered by our Alt-A wholesale operations, Impac Lending Group (ILG), a division of IFC.

On January 1, 2006, we elected to convert Impac Commercial Capital Corporation "ICCC" from a qualified REIT subsidiary to a taxable REIT subsidiary. On June 30, 2006, IMH approved the transfer of ICCC to be a wholly-owned subsidiary of IFC effective January 1, 2006.

Financial Statement Presentation

The accompanying unaudited consolidated financial statements of IMH and our subsidiaries (as defined above) have been prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation, have been included. Operating results for the three-month and six-month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

All significant inter-company balances and transactions have been eliminated in consolidation. In addition, certain amounts in the prior periods' consolidated financial statements have been reclassified to conform to the current year presentation.

Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period to prepare these financial statements in conformity with GAAP. The items effected by

7

management's estimates and assumptions include allowance for loan losses, valuation of derivative financial instruments, repurchase liabilities related to sold loans, the amortization of various loan premiums and discounts due to prepayment estimates, and lower of cost or market "LOCOM". Actual results could differ from those estimates.

Premiums, discounts and securitization costs associated with the securitized mortgage collateral and securitized mortgage borrowing are amortized or accreted into interest income/expense over the projected lives of the securitized mortgage collateral and securitized mortgage borrowings using the interest method. Our policy for estimating prepayment speeds for calculating the effective yield is to evaluate historical performance, market prepayment speeds, and current conditions. If our estimate of prepayments is incorrect, we may be required to make an adjustment to the amortization or accretion of premiums and discounts that would have an impact on future income.

2. Stock Options

Effective January 1, 2006, we adopted the Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment," using the modified prospective method, which requires us to record compensation expense for all awards granted after the date of adoption, and for the unvested portion of previously granted awards that remain outstanding at the date of adoption. Accordingly, prior period amounts presented herein have not been restated to reflect the adoption of SFAS 123R. As required, the pro forma impact from recognition of the estimated fair value of stock options granted to employees has been disclosed for previous periods.

As a result of adopting SFAS 123R on January 1, 2006, the Company's net earnings before income taxes and net earnings for the six months ended June 30, 2006 are \$1.3 million and \$931 thousand lower, respectively, than if it had continued to account for share-based compensation under Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees," ("APB 25"). Basic and diluted earnings per share for the six months ended June 30, 2006 are \$0.01 and \$0.01 lower, respectively, than if the company had continued to account for share-based compensation under APB 25.

The fair value concepts were not changed significantly in SFAS 123R; however, in adopting SFAS 123R, companies must choose among alternative valuation models and amortization assumptions. After assessing alternative valuation models and amortization assumptions, we will continue using both the Black-Scholes-Merton option-pricing formula and straight-line amortization of compensation expense over the requisite service period of the grant. We will reconsider use of the Black-Scholes-Merton model if additional information becomes available in the future that indicates another model would be more appropriate for the Company, or if grants issued in future periods have characteristics that cannot be reasonably estimated using this model.

The following table illustrates the impact as if the Company had elected to use the fair value approach to account for its employee stock-based compensation plan at June 30, 2005:

	For the Three Months Ended June 30, 2005	For the Six Months Ended June 30, 2005
Net (loss) earnings available to common stockholders	\$ (58,624)	\$ 111,362
Less: Total stock-based employee compensation expense using the fair value method	(532)	(1,078)
Pro forma net (loss) earnings	<u>\$ (59,156)</u>	<u>\$ 110,284</u>
Net (loss) earnings per share as reported:		
Basic	<u>\$ (0.78)</u>	<u>\$ 1.48</u>
Diluted	<u>\$ (0.78)</u>	<u>\$ 1.46</u>
Pro forma net (loss) earnings per share:		
Basic	<u>\$ (0.78)</u>	<u>\$ 1.46</u>
Diluted	<u>\$ (0.78)</u>	<u>\$ 1.44</u>

The fair value of options granted, which is amortized to expense over the option vesting period, is estimated on the date of grant using the Black-Scholes-Merton option pricing model with the following weighted average assumptions:

8

	For the Six Months Ended June 30,	
	2006	2005
Risk-free interest rate	3.90%-4.26%	2.16%-4.50%
Expected lives (in years)	3	3 - 4
Expected volatility (1)	34.75%	42.26%
Expected dividend yield	10.00%	10.00%
Grant date fair value of share options	\$ 1.79	\$ 3.71

(1) Expected volatilities are based on the historical volatility of the Company's stock over the expected option life.

The following table summarizes activity, pricing and other information for the Company's stock options for the six-month period ended June 30, 2006:

Number of Shares	Weighted- Average Exercise Price \$	Weighted- Average Remaining Life (Years)	Aggregate Intrinsic Value (1) (in thousands)
---------------------	--	---	---

Options outstanding at beginning of year	5,266,544	\$ 14.55		
Options granted	—	—		
Options exercised	—	—		
Options forfeited / cancelled	(426,668)	16.22		
Options outstanding at end of period	4,839,876	\$ 14.41	2.49	\$ 5,285.8
Options exercisable at end of period	2,248,851	\$ 11.90	2.52	\$ 5,285.8

(1) The intrinsic value of a stock option is the amount by which the fair value of the underlying stock exceeds the exercise price of the option.

The aggregate intrinsic value in the preceding table represents the total pretax intrinsic value, based on the Company's closing stock price of \$11.18 as of June 30, 2006, which would have been received by the option holders had all option holders exercised their options as of that date.

A summary of the option activity of the Company's nonvested shares and changes during the six month period ended June 30, 2006, is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
Nonvested outstanding at beginning of period	2,872,694	\$ 2.25
Granted	—	—
Vested	—	—
Forfeited	(281,669)	2.24
Nonvested outstanding at end of period	2,591,025	\$ 2.25

As of June 30, 2006, there was approximately \$3.2 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the plan. That cost is expected to be recognized over a weighted average period of 1.8 years.

Additional information regarding stock options outstanding as of June 30, 2006, is as follows:

9

Exercise Price Range (\$)	Stock Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price (\$)	Number Exercisable	Weighted-Average Exercise Price (\$)	
3.85	22,500	4.59	3.85	22,500	3.85	
4.18	652,500	4.74	4.18	652,500	4.18	
4.44 - 9.40	110,000	5.11	7.16	110,000	7.16	
9.42	11,250	5.74	9.42	11,250	9.42	
10.95	398,621	0.08	10.95	398,621	10.95	
13.76	1,388,500	3.12	13.76	—	—	
14.27	1,058,505	1.08	14.27	627,325	14.27	
21.77	40,000	7.98	21.77	40,000	21.77	
22.83	653,000	2.08	22.83	218,327	22.83	
23.10	505,000	2.09	23.10	168,328	23.10	
3.85 - 23.10	4,839,876	2.49	14.41	2,248,851	11.90	

3. Recent Accounting Pronouncements

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments", an amendment of FASB Statements No. 133 and SFAS No. 140 ("SFAS 155"). This statement permits fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. It also clarifies which interest-only strips and principal-only strips are not subject to FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). The statement also establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or hybrid financial instruments that contain an embedded derivative requiring bifurcation. The statement also clarifies that concentration of credit risks in the form of subordination are not embedded derivatives, and it also amends SFAS 140 to eliminate the prohibition on a QSPE from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of this statement by the Company will not have a significant effect on the financial results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets"- an amendment of FASB Statement No. 140 ("SFAS 156"). This statement requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in any of the following situations; whenever a transfer of the servicer's financial assets that meets the requirements for sale accounting, a transfer of the servicer's financial assets to a qualifying special-purpose entity in a guaranteed mortgage securitization in which the transferor retains all of the resulting securities and classifies them as either available-for-sale securities or trading securities in accordance with FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities, an acquisition or assumption of an obligation to service a financial asset that does not relate to financial assets of the servicer or its consolidated affiliates. This statement requires all separately recognized servicing assets and servicing liabilities to be initially measured at fair value, if practicable. This statement permits an entity to choose either the amortization method or the fair value measurement method for each class of separately recognized servicing assets and servicing liabilities. This statement at its initial adoption, permits a one-time reclassification of available-for-sale securities to trading securities by entities with recognized servicing rights, without calling into question the treatment of other available-for-sale securities under Statement 115, provided that the available-for-sale securities are identified in some manner as offsetting the entity's

exposure to changes in fair value of servicing assets or servicing liabilities that a servicer elects to subsequently measure at fair value. This statement also requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the statement of financial position and additional disclosures for all separately recognized servicing assets and servicing liabilities. An entity should adopt this statement as of the beginning of its first fiscal year that begins after September 15, 2006. The adoption of this statement by the Company is not expected to have a significant effect on the financial results of operations.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, (“FIN 48”) which expands on the accounting guidance of FASB Statement No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a

tax position taken or expected to be taken in a tax return. This interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this interpretation by the Company is not expected to have a significant effect on the financial results of operations.

4. Legal Proceedings

The Company’s Form 10-K for the year ended December 31, 2005 reported securities class actions filed against the Company and its senior officers and directors. On May 1, 2006, the U.S. District Court, Central District of California approved the consolidation of the federal securities class actions and appointed lead plaintiff and lead counsel. A consolidated complaint was filed in this action on July 24, 2006. The Company and its officers and directors intend to move to dismiss the consolidated complaint.

The Company’s Form 10-K for the year ended December 31, 2005 and Form 10-Q for the period ended March 31, 2006 reported shareholder derivative actions filed against the Company and its senior officers and directors in the U.S. District Court, Central District of California and Orange County Superior Court. On April 20, 2006, the Orange County Superior Court approved the consolidation of the state shareholder derivative actions and appointed lead plaintiff and lead counsel. A consolidated amended complaint was filed in this action on May 12, 2006. The Company and its officers and directors have moved to stay the state shareholder derivative action pending resolution of the federal securities class actions and federal shareholder derivative actions. On June 7, 2006, the U.S. District Court, Central District of California approved the consolidation of the federal shareholder derivative actions and appointed lead plaintiff and lead counsel.

We believe that we have meritorious defenses to the above claims and intend to defend these claims vigorously. Nevertheless, litigation is uncertain and we may not prevail in the lawsuits and can express no opinion as to their ultimate resolution. An adverse judgment in any of these matters could have a material adverse effect on us.

Note B—Reconciliation of Earnings Per Share

The following table presents the computation of basic and diluted net earnings per share including the dilutive effect of stock options and cumulative redeemable preferred stock outstanding for the periods indicated:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Numerator for basic earnings per share:				
Net earnings (loss)	\$ 26,356	\$ (55,000)	\$ 111,922	\$ 118,610
Less: Cash dividends on cumulative redeemable preferred stock	(3,672)	(3,624)	(7,344)	(7,248)
Net earnings (loss) available to common stockholders	\$ 22,684	\$ (58,624)	\$ 104,578	\$ 111,362
Denominator for basic earnings per share:				
Basic weighted average number of common shares outstanding during the period	76,113	75,387	76,113	75,297
Denominator for diluted earnings per share:				
Diluted weighted average number of common shares outstanding during the period	76,113	75,387	76,113	75,297
Net effect of dilutive stock options	307	—	288	938
Diluted weighted average common shares	76,420	75,387	76,401	76,235
Net earnings (loss) per share:				
Basic	\$ 0.30	\$ (0.78)	\$ 1.37	\$ 1.48
Diluted	\$ 0.30	\$ (0.78)	\$ 1.37	\$ 1.46

For the three and six month periods ended June 30, 2006, stock options to purchase 4.1 million and 4.3 million shares, respectively, were outstanding but not included in the above weighted average calculations because they were anti-dilutive. For the six month period ended June 30, 2005, stock options to purchase 1.4 million shares, were outstanding but not included in the above weighted average calculations because they were anti-dilutive.

Note C—Segment Reporting

The following tables present reporting segments as of and for the six and three month periods ended June 30, 2006 and 2005:

Reporting Segments as of and for the Six Months
Ended June 30, 2006

	Long-Term Investment Operations	Warehouse Lending Operations	Mortgage Operations (IFC)	Commercial Operations	Inter- Company (1)	Consolidated
Balance Sheet Items:						
Securitized mortgage collateral and mortgages held-for-investment	\$ 20,623,573	\$ —	\$ —	\$ —	\$ (106,358)	\$ 20,517,215
Mortgages held-for-sale	—	—	1,076,090	127,133	—	1,203,223
Finance receivables	—	1,388,282	—	—	(1,095,996)	292,286
Total assets	20,974,306	1,484,173	1,123,951	126,699	(961,581)	22,747,548
Total stockholders' equity	1,034,678	231,058	83,658	240	(131,448)	1,218,186

Income Statement Items:

Net interest (loss) income	\$ (47,314)	\$ 14,570	\$ (1,386)	\$ 190	\$ 30,668	\$ (3,272)
Provision for loan losses	105	—	—	—	—	105
Realized gain from derivatives	95,986	—	4	14	—	96,004
Change in fair value of derivatives	54,866	—	4,254	(217)	4,030	62,933
Other non-interest (loss) income	(782)	1,548	17,878	3,101	(10,994)	10,751
Non-interest expense and income taxes	7,718	3,501	34,581	5,105	3,484	54,389
Net earnings (loss)	<u>\$ 94,933</u>	<u>\$ 12,617</u>	<u>\$ (13,831)</u>	<u>\$ (2,017)</u>	<u>\$ 20,220</u>	<u>\$ 111,922</u>

Reporting Segments as of and for the Three Months
Ended June 30, 2006

	Long-Term Investment Operations	Warehouse Lending Operations	Mortgage Operations (IFC)	Commercial Operations	Inter- Company (1)	Consolidated
Income Statement Items:						
Net interest (loss) income	\$ (35,226)	\$ 6,879	\$ (2,664)	\$ 56	\$ 16,208	\$ (14,747)
Recovery of loan losses	(45)	—	—	—	—	(45)
Realized gain from derivatives	55,851	—	4	13	—	55,868
Change in fair value of derivatives	7,903	—	629	(1,058)	4,030	11,504
Other non-interest (loss) income	(518)	751	(3,286)	2,064	(4,435)	(5,424)
Non-interest expense and income taxes	3,680	1,627	10,766	2,696	2,121	20,890
Net earnings (loss)	<u>\$ 24,375</u>	<u>\$ 6,003</u>	<u>\$ (16,083)</u>	<u>\$ (1,621)</u>	<u>\$ 13,682</u>	<u>\$ 26,356</u>

(1) Income statement items include inter-company loan sale transactions and the elimination of related gains. Corporate overhead expenses are generally allocated to the segments based on percentage of time devoted to the segment.

Reporting Segments as of and for the Six Months
Ended June 30, 2005

	Long-Term Investment Operations	Warehouse Lending Operations	Mortgage Operations (IFC)	Inter- Company (1)	Consolidated
Balance Sheet Items:					
Securitized mortgage collateral and mortgages held-for-investment	\$ 24,338,258	\$ —	\$ —	\$ (126,189)	\$ 24,212,069
Mortgages held-for-sale	—	401	1,280,724	-	1,281,125
Finance receivables	—	1,809,901	—	(1,427,001)	382,900
Total assets	24,670,806	1,920,374	1,346,352	(1,438,722)	26,498,810
Total stockholders' equity	901,594	187,551	24,955	(66,091)	1,048,009
Income Statement Items:					
Net interest income	\$ 81,027	\$ 24,980	\$ 6,659	\$ 34,593	\$ 147,259
Provision for loan losses	11,785	—	—	—	11,785
Realized loss from derivatives	(15,183)	—	—	—	(15,183)
Change in fair value of derivatives	38,007	—	(4,368)	—	33,639
Other non-interest income	981	4,257	74,400	(45,673)	33,965
Non-interest expense and income taxes	7,000	3,855	61,268	(2,838)	69,285
Net earnings (loss)	<u>\$ 86,047</u>	<u>\$ 25,382</u>	<u>\$ 15,423</u>	<u>\$ (8,242)</u>	<u>\$ 118,610</u>

Reporting Segments as of and for the Three Months
Ended June 30, 2005

	Long-Term Investment Operations	Warehouse Lending Operations	Mortgage Operations (IFC)	Inter- Company (1)	Consolidated
Income Statement Items:					
Net interest income	\$ 28,908	\$ 13,638	\$ 4,685	\$ 18,922	\$ 66,153
Provision for loan losses	5,711	—	—	—	5,711
Realized loss from derivatives	(1,456)	—	—	—	(1,456)
Change in fair value of derivatives	(90,872)	—	(6,807)	—	(97,679)
Other non-interest income (loss)	1,140	2,230	30,880	(14,499)	19,751
Non-interest expense and income taxes	4,307	1,770	29,501	480	36,058

Net (loss) earnings	\$ (72,298)	\$ 14,098	\$ (743)	\$ 3,943	\$ (55,000)
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- (1) Income statement items include inter-company loan sale transactions and the elimination of related gains. Corporate overhead expenses are generally allocated to the segments based on percentage of time devoted to the segment.

Note D—Mortgages Held-for-Sale

Mortgages held-for-sale for the periods indicated consisted of the following:

	At June 30, 2006	At December 31, 2005
Mortgages held-for-sale - residential	\$ 1,078,763	\$ 2,027,194
Mortgages held-for-sale - commercial	126,600	—
Change in fair value of mortgages held-for-sale	(19,749)	(4,465)
Net premiums on mortgages held-for-sale — residential	17,075	29,965
Net premiums on mortgages held-for-sale — commercial	534	—
Total mortgages held-for-sale	\$ 1,203,223	\$ 2,052,694

Gains and losses on repurchases are recorded against the gain on sale of loans in the financial statements. Included in other liabilities as of June 30, 2006 and December 31, 2005, was a liability for mortgage repurchases of \$31.1 million and

13

\$10.4 million, respectively. The liability for mortgage repurchases is maintained for the purpose of providing for estimated losses from repurchasing previously sold mortgages for various reasons, including early payment defaults or breach of representations or warranties, which mortgages may be subsequently sold at a loss. In determining the adequacy of the liability for mortgage repurchases, management considers such factors as specific requests for repurchase, known problem loans, underlying collateral values, recent sales activity of similar loans and other appropriate information.

During the three and six months ended June 30, 2006, the provision for loan repurchases was \$12.8 million and \$23.1 million, respectively. During the three and six months ended June 30, 2005, the provision for loan repurchases was \$1.7 million and \$5.4 million, respectively. For the three month period ended June 30, 2006, there were no sales of repurchased and re-priced mortgages. The loss on sale of repurchased and re-priced mortgages are recorded against gain on sale of loans in the financial statements.

Note E—Securitized Mortgage Collateral

Securitized mortgage collateral consisted of the following:

	At June 30, 2006	At December 31, 2005
Mortgages secured by single-family residential real estate	\$ 18,879,688	\$ 22,986,632
Mortgages secured by commercial real estate	1,380,851	1,195,541
Net unamortized premiums on mortgages — residential	235,273	301,709
Net unamortized premiums on mortgages — commercial	13,013	10,408
Total securitized mortgage collateral	\$ 20,508,825	\$ 24,494,290

Note F—Allowance for Loan Losses

The allowance for loan loss is comprised of the following:

	At June 30, 2006	At December 31, 2005
Securitized mortgage collateral and mortgages held-for-investment	\$ 49,250	\$ 55,007
Specific reserve for finance receivables	10,683	10,683
Specific reserve for estimated hurricane losses	8,139	12,824
Total allowance for loan losses	\$ 68,072	\$ 78,514

Activity for allowance for loan losses for the periods indicated was as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Beginning balance	\$ 74,258	\$ 66,789	\$ 78,514	\$ 63,955
(Recovery of) provision for loan losses	(45)	5,711	105	11,785
Charge-offs, net of recoveries	(6,141)	(2,674)	(10,547)	(5,914)
Total allowance for loan losses	\$ 68,072	\$ 69,826	\$ 68,072	\$ 69,826

Note G—Other Assets

Other assets for the periods indicated consisted of the following:

14

	At June 30, 2006	At December 31, 2005
Real estate owned	\$ 80,068	\$ 46,351
Deferred charge	41,035	47,406
Investment securities available-for-sale	32,213	40,227
Prepaid and other assets	15,735	34,422
Premises and equipment, net	13,246	12,312
Deferred income taxes	12,077	12,160
Cash margin balances	8,585	16,567
Investment in Impac Capital Trusts	2,761	2,884
Investments for deferred compensation plan	—	8,041
Total other assets	<u>\$ 205,720</u>	<u>\$ 220,370</u>

Note H—Securitized Mortgage Borrowings

Selected information on securitized mortgage borrowings for the periods indicated consisted of the following (dollars in millions):

Year of Issuance	Original Issuance Amount	Securitized mortgage borrowings outstanding as of		Fixed Interest Rates	Range of Percentages:	
		6/30/2006	12/31/2005		Interest Rate Margins over One-Month LIBOR (1)	Interest Rate Margins after Adjustment Date (2)
2002	\$ 3,876.1	\$ 91.5	\$ 219.8	5.25 - 12.00	0.27 - 2.75	0.54 - 3.68
2003	5,966.1	1,224.9	1,723.0	4.34 - 12.75	0.27 - 3.00	0.54 - 4.50
2004	17,710.7	7,718.3	10,191.9	3.58 - 5.56	0.25 - 2.50	0.50 - 3.75
2005	13,387.7	10,201.0	11,902.9	—	0.24 - 2.90	0.48 - 4.35
2006	923.0	888.3	—	6.25	0.10 - 1.40	0.20 - 2.10
Subtotal securitized mortgage borrowings		20,124.0	24,037.6			
Accrued interest expense		18.7	18.1			
Unamortized securitization costs		(48.0)	(65.3)			
Total securitized mortgage borrowings		<u>\$ 20,094.7</u>	<u>\$ 23,990.4</u>			

(1) One-month LIBOR was 5.35% as of June 30, 2006.

(2) Interest rate margins over one-month LIBOR are generally adjusted when the unpaid principal balance is reduced to less than 10-20% of the original issuance amount.

Note I—Reverse Repurchase Agreements

Reverse repurchase agreements are entered into to finance our warehouse lending operations and to fund the closing and purchase of mortgages by the mortgage and commercial operations. These facilities consist of uncommitted lines, which may be withdrawn at any time by the lender, and committed lines. At June 30, 2006, the Company was in compliance with the financial covenants associated with the reverse repurchase agreements. During the second quarter of 2006, these facilities amounted to \$5.2 billion, of which \$1.3 billion was outstanding at June 30, 2006.

Note J—Income Taxes

During the three and six months ended June 30, 2006, income tax benefit was \$12.0 million and \$13.9 million, respectively. During the three and six months ended June 30, 2005, income tax benefit was \$4.1 million and \$6.6 million, respectively. The increase in income tax benefit was primarily due to net losses at the taxable REIT subsidiaries during the three months ended June 30, 2006. The Company makes an estimate of the effective tax rate expected to be applicable for the fiscal year when providing for income tax expense (benefit).

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless the context otherwise requires, the terms "Company," "we," "us," and "our" refer to Impac Mortgage Holdings, Inc. (IMH), a Maryland corporation incorporated in August 1995, and its subsidiaries, IMH Assets Corp. (IMH Assets), Impac Warehouse Lending Group, Inc. (IWLG), and Impac Funding Corporation (IFC), together with its wholly-owned subsidiaries Impac Secured Assets Corp. (ISAC) and Impac Commercial Capital Corporation (ICCC).

Forward-Looking Statements

This report on Form 10-Q contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, some of which are based on various assumptions and events that are beyond our control, may be identified by reference to a future period or periods or by the use of forward-looking terminology, such as "may," "will," "believe," "expect," "likely," "should," "anticipate," or similar terms or variations on those terms or the negative of those terms. The forward-looking statements are based on management expectations. Actual results may differ materially as a result of several factors, including, but not limited to, failure to achieve projected earnings levels; unexpected or greater than anticipated increases in credit and bond spreads; the ability to generate sufficient liquidity; the ability to access the equity markets; increased operating expenses and mortgage origination or purchase expenses that reduce current liquidity position more than anticipated; continued increase

in price competition; risks of delays in raising, or the inability to raise on acceptable terms, additional capital, either through equity offerings, lines of credit or otherwise; the ability to generate taxable income and to pay dividends; interest rate fluctuations on our assets that unexpectedly differ from those on our liabilities; unanticipated interest rate fluctuations; changes in expectations of future interest rates; unexpected increase in prepayment rates on our mortgages; changes in assumptions regarding estimated loan losses or an increase in loan losses; continued ability to access the securitization markets or other funding sources, the availability of financing and, if available, the terms of any financing; changes in markets which the Company serves, such as mortgage refinancing activity and housing price appreciation; and other general market and economic conditions.

For a discussion of these and other risks and uncertainties that could cause actual results to differ from those contained in the forward-looking statements, see “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the period ended December 31, 2005, and the other reports we file under the Securities and Exchange Act of 1934. This document speaks only as of its date and we do not undertake, and specifically disclaim any obligation, to publicly release the results of any revisions that may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

The Mortgage Banking Industry and Discussion of Relevant Fiscal Periods

The mortgage banking industry is continually subject to current events that occur in the financial services industry. Such events include changes in economic indicators, interest rates, price competition, housing prices, geographic shifts, disposable income, market anticipation, customer perception as well as others. The factors that effect the industry change rapidly.

In this environment, mortgage banking companies generally anticipate the future marketplace, engage in hedging activities and continuously reassess business plans and strategies to effectively position themselves in the marketplace.

As a result, current events can diminish the relevance of “quarter over quarter” and “year-to-date over year-to-date” comparisons of financial information. In such instances, the Company intends to present financial information in its Management Discussion and Analysis that is the most relevant to its financial information.

General Overview

We are a mortgage real estate investment trust, or “REIT,” that is a nationwide acquirer, originator, seller and investor of non-conforming Alt-A residential mortgages, or “Alt-A mortgages,” and to a lesser extent, small-balance, commercial

mortgages, or “commercial mortgages” and sub-prime residential mortgages. We also provide warehouse financing to originators of mortgages.

We operate four core businesses:

- the long-term investment operations that is conducted by IMH and IMH Assets;
- the mortgage operations that is conducted by IFC and ISAC;
- the warehouse lending operations that is conducted by IWLG; and
- the commercial operations that is conducted by ICCC.

The long-term investment operations primarily invest in adjustable rate and, to a lesser extent, fixed rate Alt-A mortgages and commercial mortgages that are acquired and originated by our mortgage and commercial operations. Alt-A mortgages are primarily first lien mortgages made to borrowers whose credit is generally within typical Fannie Mae and Freddie Mac guidelines, but have loan characteristics that make them non-conforming under those guidelines. Some of the principal differences between mortgages purchased by Fannie Mae and Freddie Mac and Alt-A mortgages are as follows:

- credit and income histories of the mortgagor;
- underwriting guidelines for debt and income ratios;
- documentation required for approval of the mortgagor; and
- loan balances in excess of maximum Fannie Mae and Freddie Mac lending limits.

For instance, Alt-A mortgages may not have certain documentation or verifications that are required by Fannie Mae and Freddie Mac and, therefore, in making our credit decisions, we are more reliant upon the borrower’s credit score and the adequacy of the underlying collateral. We believe that Alt-A mortgages provide an attractive net earnings profile by producing higher yields without commensurately higher credit losses than other types of mortgages.

The long-term investment operations also invest in commercial mortgages that are primarily adjustable rate mortgages with initial fixed interest rate periods of two-, three-, five-, seven- and ten-years that subsequently convert to adjustable rate mortgages, or “hybrid ARMs,” with balances that generally range from \$500,000 to \$5.0 million. Commercial mortgages have interest rate floors, which are the initial start rate, in some circumstances lock out periods and prepayment penalty periods of three-, five-, seven- and ten-years. Commercial mortgages provide greater asset diversification on our balance sheet as borrowers of commercial mortgages typically have higher credit scores and commercial mortgages typically have lower loan-to-value ratios, or “LTV ratios,” and longer average life to payoff than Alt-A mortgages.

The long-term investment operations generate earnings primarily from net interest income earned on mortgages held for long-term investment, or (long-term mortgage portfolio). The long-term mortgage portfolio as reported on our consolidated balance sheet consists of mortgages held as securitized mortgage

collateral and mortgages held-for-investment. Investments in Alt-A mortgages and commercial mortgages are initially financed with short-term borrowings under reverse repurchase agreements that are subsequently converted to long-term financing in the form of securitized mortgage borrowings. Cash flows from the long-term mortgage portfolio, proceeds from the sale of capital stock and issuance of trust preferred securities also finance new Alt-A and commercial mortgages.

In 2005 and 2006, we completed ISAC REMIC 2005-2 and ISAC REMIC 2006-1 securitizations which were treated as a sale for tax purposes but treated as secured borrowings for generally accepted accounting principles (GAAP) purposes and consolidated in the financial statements. The associated collateral and borrowings have been combined with and included in securitized mortgage collateral and borrowings, respectively, for reporting purposes. Reference to “securitized mortgage collateral” or “securitized mortgage borrowings” includes the REMIC 2005-2 and 2006-1 securitized collateral and borrowings, respectively.

In the second quarter of 2006, we completed ISAC REMIC 2006-2 securitization in the amount of \$834.0 million which was treated as a sale for both tax and GAAP purposes. Residual interest of approximately \$29.8 million calculated as present value of estimated future cash flows, retained as a result of the ISAC REMIC 2006-2 securitization, was recorded in other assets on the balance sheet. As of June 30, 2006, the tax basis value of our residual interests from securitization

transactions was \$116.4 million. Investments in residual interest and subordinated securities represent higher risk than investments in senior mortgage-backed securities because these subordinated securities bear all credit losses prior to the related senior securities. The risk associated with holding residual interest and subordinated securities is greater than holding the underlying mortgage loans directly due to the concentration of losses attributed to the subordinated securities. The value of residual interests represents the present value of future cash flows expected to be received by us from the excess cash flows created in the securitization transaction. In general, future cash flows are estimated by taking the coupon rate of the loans underlying the transaction less the interest rate paid to the investors, less contractually specified servicing and trustee fees, and after giving effect to estimated prepayments and credit losses. We estimate future cash flows from these securities and value them utilizing assumptions based in part on projected discount rates, delinquency, mortgage loan prepayment speeds and credit losses.

The mortgage operations acquire, originate, sell and securitize primarily adjustable rate and fixed rate Alt-A mortgages and, to a lesser extent, sub-prime residential mortgages. The mortgage operations generate income by securitizing and selling mortgages to permanent investors, including the long-term investment operations. This business also earns revenue from fees associated with mortgage servicing rights, master servicing agreements and interest income earned on mortgages held for sale. The mortgage operations use warehouse facilities provided by the warehouse lending operations to finance the acquisition and origination of mortgages.

The warehouse lending operations provide short-term financing to mortgage loan originators, including our mortgage operations, by funding mortgages from their closing date until sale to pre-approved investors. This business earns fees from warehouse transactions as well as net interest income from the difference between its cost of borrowings and the interest earned on warehouse advances.

The commercial operations originate commercial mortgages that are primarily adjustable rate mortgages with initial fixed interest rate periods of two-, three-, five-, seven- and ten-years that subsequently adjust to adjustable rate mortgages, or “hybrid ARMs,” with balances that generally range from \$500,000 to \$5.0 million. Commercial mortgages have interest rate floors, which is the initial start rate, in some circumstances have lockouts and prepayment penalty periods of three-, five-, seven- and ten-years. These mortgages provide greater asset diversification on our balance sheet as commercial mortgage borrowers typically have higher credit scores and typically have lower loan-to-value ratios, or “LTV ratios,” and the mortgages have longer average lives than residential mortgages.

Critical Accounting Policies

We define critical accounting policies as those that are important to the portrayal of our financial condition and results of operations and may require estimates and assumptions based on our judgment of changing market conditions and the performance of our assets and liabilities at any given time. In determining which accounting policies meet this definition, we considered our policies with respect to the valuation of our assets and liabilities and estimates and assumptions used in determining those valuations. We believe the most critical accounting issues that require the most complex and difficult judgments and that are particularly susceptible to significant change to our financial condition and results of operations include allowance for loan losses, derivative financial instruments and securitization of financial assets as financing versus sale.

Selected Financial Results for the Second Quarter of 2006

- Estimated taxable income per diluted share was \$0.27 compared to \$0.36 for the first quarter of 2006 and \$0.54 for the second quarter of 2005;
- Cash dividends declared per common share were \$0.25 compared to \$0.25 for the first quarter of 2006 and \$0.75 for the second quarter of 2005;
- Total assets were \$22.7 billion as of June 30, 2006 compared to \$27.7 billion as of December 31, 2005 and \$26.5 billion as of June 30, 2005;
- Book value per common share was \$13.91 as of June 30, 2006 compared to \$13.24 as of December 31, 2005 and \$11.77 as of June 30, 2005;
- The mortgage operations acquired and originated \$2.2 billion of primarily Alt-A mortgages compared to \$2.1 billion for the first quarter of 2006 and \$5.5 billion for the second quarter of 2005;

- The commercial mortgage operations originated \$277.9 million of commercial mortgages compared to \$202.8 million for the first quarter of 2006 and \$214.6 million for the second quarter of 2005.

Selected Financial Results for the First Six Months of 2006

- Estimated taxable income per diluted share decreased to \$0.63 compared to \$1.28 for the first six months of 2005;
- Cash dividends declared per share decreased to \$0.50 compared to \$1.50 for the first six months of 2005;
- The mortgage operations acquired and originated \$4.3 billion of primarily Alt-A mortgages compared to \$10.1 billion for the first six months of 2005;
- The long-term investment operations, excluding IMCC originations, retained for investment \$694.4 million of primarily Alt-A mortgages compared to \$6.4 billion for the first six months of 2005; and
- The commercial mortgage operations originated \$480.7 million of commercial mortgages compared to \$379.9 million for the first six months of 2005.

Second Quarter and Year to Date 2006 Taxable Income

Because dividend payments are based on estimated taxable income, dividends may be more or less than net earnings. As such, we believe that the disclosure of estimated taxable income available to common stockholders, which is a non-generally accepted accounting principle, or “non-GAAP,” financial measurement, is useful information for our investors.

The following table presents a reconciliation of net earnings (GAAP) to estimated taxable income available to common stockholders for the periods indicated (in thousands, except per share amounts):

	For the Three Months Ended June 30, (1)		For the Six Months Ended June 30, (1)	
	2006	2005	2006	2005
Net earnings (loss)	\$ 26,356	\$ (55,000)	\$ 111,922	\$ 118,610
Adjustments to net earnings: (2)				
Loan loss (recovery of) provision (3)	(45)	5,711	105	11,785
REMIC income (4)	4,374	—	9,096	—
Tax deduction for actual loan losses (3)	(6,141)	(2,674)	(10,547)	(5,914)
Change in fair value of derivatives (5)	(7,903)	90,871	(54,866)	(38,008)
Dividends on preferred stock	(3,672)	(3,624)	(7,344)	(7,248)
Net loss (earnings) of taxable REIT subsidiaries (6)	17,704	743	15,848	(15,423)
Dividend from taxable REIT subsidiaries (7)	3,500	9,000	3,500	25,850
Elimination of inter-company loan sales transactions (8)	(13,682)	(3,943)	(20,220)	8,242
Miscellaneous adjustments	119	—	239	—
Estimated taxable income available to common stockholders (9)	\$ 20,610	\$ 41,084	\$ 47,733	\$ 97,894
Estimated taxable income per diluted common share (9)	\$ 0.27	\$ 0.54	\$ 0.63	\$ 1.28
Diluted weighted average common shares outstanding	76,420	75,387	76,401	76,235

- (1) Estimated taxable income includes estimates of book to tax adjustments and can differ from actual taxable income as calculated when we file our annual corporate tax return. Since estimated taxable income is a non-GAAP financial measurement, the reconciliation of estimated taxable income available to common stockholders to net earnings is intended to meet the requirements of Regulation G as promulgated by the SEC for the presentation of non-GAAP financial measurements. To maintain our REIT status, we are required to distribute a minimum of 90% of our annual taxable income to our stockholders.
- (2) Certain adjustments are made to net earnings in order to calculate taxable income due to differences in the way revenues and expenses are recognized under the two methods.
- (3) To calculate estimated taxable income, actual loan losses are deducted. For the calculation of net earnings, GAAP requires a deduction for estimated losses inherent in our mortgage portfolios in the form of a provision for loan losses, which are not deductible for tax purposes. Therefore, as the estimated losses provided for under GAAP are actually realized, the losses will negatively and may materially impact future taxable income.

- (4) Includes GAAP to Tax Differences related to the ISAC REMIC 2005-2 and ISAC REMIC 2006-1 securitizations, which were treated as secured borrowings for GAAP purposes and sales for tax purposes.
- (5) The mark-to-market change for the valuation of derivatives at IMH is income or expense for GAAP financial reporting but is not included as an addition or deduction for taxable income calculations.
- (6) Represents net earnings of IFC and ICCG, our taxable REIT subsidiaries (TRSs), which may not necessarily equal taxable income. Starting January 1, 2006, the Company elected to convert ICCG from a qualified REIT subsidiary to a TRS. Therefore, the three and six months ended June 30, 2005 does not include any net earnings or losses of ICCG.

- (7) Any dividends paid to IMH by the TRSs in excess of their cumulative undistributed taxable income would be recognized as return of capital by IMH to the extent of IMH's capital investment in the TRSs. Distributions from the TRSs to IMH may not equal the TRS's net earnings, however, IMH can only recognize dividend distributions received from the TRSs as taxable income to the extent that the TRS's distributions are from current or prior period undistributed taxable income. Any distributions by the TRSs in excess of IMH's capital investment in the TRSs would be taxed as capital gains.
- (8) Includes the effects to taxable income associated with the elimination of gains from inter-company loan sales and other intercompany transactions between IFC, ICCG, and IMH, net of tax and the related amortization of the deferred charge.
- (9) Excludes the deduction for common stock dividends paid and the availability of a deduction attributable to net operating loss carry-forwards. As of December 31, 2005, the Company has estimated Federal net operating loss carry-forwards of \$18.1 million that are expected to be utilized prior to their expiration in the year 2020.

Second Quarter 2006 vs. First Quarter 2006

Estimated taxable income decreased by \$6.5 million to \$20.6 million, or \$0.27 per diluted common share, for the second quarter 2006, compared to \$27.1 million or \$0.36 per diluted common share, for the first quarter 2006. The decrease in estimated taxable income was primarily attributable to a decrease in adjusted net interest margin at the REIT of \$9.6 million and an increase in actual loan losses of \$1.7 million, partially offset by an increase in income of \$1.9 million from REMIC securitizations and a \$3.5 million increase in dividend income from the taxable REIT subsidiary, IFC.

The decrease in adjusted net interest margin of \$9.6 million was primarily the result of a decrease in interest income of \$35.3 million, partially offset by a decrease in interest expense of \$12.5 million and an increase in realized gain from derivative instruments of \$13.2 million. The decrease in interest income and interest expense was primarily due to a decline in the average balances of the securitized mortgage collateral and the related securitized mortgage borrowings. To a lesser degree the effect of adjusting the amortization of loan premiums and securitization costs based on updated prepayment experience in the 1st quarter resulted in a catch up reduction in amortization of approximately \$2.9 million favorable impact on the first quarter of 2006.

20

Financial Condition and Results of Operations

Financial Condition

Condensed Balance Sheet Data (dollars in thousands)

	June 30, 2006	December 31, 2005	Increase (Decrease)	% Change
Cash and cash equivalents	\$ 180,644	\$ 146,621	\$ 34,023	23%
Restricted Cash	661	698	(37)	(5)
Securitized mortgage collateral	20,508,825	24,494,290	(3,985,465)	(16)
Mortgages held-for-investment	8,390	160,070	(151,680)	(95)
Finance receivables	292,286	350,217	(57,931)	(17)
Allowance for loan losses	(68,072)	(78,514)	(10,442)	(13)
Mortgages held-for-sale	1,203,223	2,052,694	(849,471)	(41)
Derivatives	312,877	250,368	62,509	25
Accrued interest receivable	102,994	123,565	(20,571)	(17)
Other assets	205,720	220,370	(14,650)	(7)
Total assets	\$ 22,747,548	\$ 27,720,379	\$ (4,972,831)	(18)%
Securitized mortgage borrowings	\$ 20,094,718	\$ 23,990,430	\$ (3,895,712)	(16)%
Reverse repurchase agreements	1,278,485	2,430,075	(1,151,590)	(47)
Other liabilities	156,159	132,927	23,232	17
Total liabilities	21,529,362	26,553,432	(5,024,070)	(19)
Total stockholder's equity	1,218,186	1,166,947	51,239	4
Total liabilities and stockholders' equity	\$ 22,747,548	\$ 27,720,379	\$ (4,972,831)	(18)%

Total assets were \$22.7 billion as of June 30, 2006 as compared to \$27.7 billion as of December 31, 2005. The reduction in total assets of \$5.0 billion was mainly attributable to \$4.1 billion in whole loan sales, REMIC securitization 2006-2 for \$834.0 million, and \$4.7 billion in total principal pay downs, which was only partially offset by total year-to-date acquisitions and originations of \$4.8 billion.

The following table presents selected information about mortgages held as securitized mortgage collateral as of the dates indicated:

21

	Residential As of			Commercial As of		
	June 30, 2006	December 31, 2005	June 30, 2005	June 30, 2006	December 31, 2005	June 30, 2005
Percent of Alt-A mortgages	99	99	99	N/A	N/A	N/A
Percent of non-hybrid ARMs	12	14	15	2	4	7

Percent of hybrid ARMs	75	75	75	98	96	93
Percent of FRMs	13	11	10	0	0	0
Percent of interest-only	72	71	66	12	11	2
Weighted average coupon	6.28	6.10	5.82	5.82	5.62	5.39
Weighted average margin	3.80	3.79	3.70	2.69	2.69	2.75
Weighted average original LTV	75	76	76	67	67	67
Weighted average original credit score	696	695	695	730	728	726
Percent with active prepayment penalty	75	75	75	100	100	100
Prior 3-month constant prepayment rate	37	38	33	10	9	8
Prior 12-month prepayment rate	38	37	28	9	9	7
Lifetime prepayment rate	27	25	20	6	5	4
Weighted average debt service coverage ratio	N/A	N/A	N/A	1.29	1.22	1.32
Percent of mortgages in California	54	55	59	66	71	79
Percent of purchase transactions	59	60	59	52	52	53
Percent of owner occupied	79	81	82	N/A	N/A	N/A
Percent of first lien	99	99	99	100	100	100

* N/A = Not Applicable

The following table presents selected financial data as of the dates indicated (dollars in thousands, except share data):

	As of and Year-to-Date Ended,		
	June 30, 2006	December 31, 2005	June 30, 2005
Book value per share	\$ 13.91	\$ 13.24	\$ 11.77
Return on average assets	0.88%	1.01%	0.92%
Return on average equity	18.63%	24.13%	21.24%
Assets to equity ratio	18.67:1	23.75:1	25.28:1
Debt to equity ratio	17.62:1	22.72:1	24.19:1
Mortgages owned 60+ days delinquent	\$ 861,275	\$ 733,348	\$ 461,360
60+ day delinquency of mortgages owned	4.16%	3.12%	2.01%

We believe that in order for us to generate positive cash flows and earnings we must successfully manage the following primary operational and market risks:

- credit risk;
- prepayment risk;
- liquidity risk; and
- interest rate risk.

Credit Risk. We manage credit risk by acquiring for long-term investment high credit quality Alt-A and commercial mortgages from our customers, adequately providing for loan losses and actively managing delinquencies and defaults. Alt-A mortgages are primarily first lien mortgages made to borrowers whose credit is generally within typical Fannie Mae and Freddie Mac guidelines, but that have loan characteristics that make them non-conforming under those guidelines.

As of June 30, 2006, the original weighted average credit score of mortgages held as residential and commercial securitized mortgage collateral was 696 and 730, respectively, and the original weighted average LTV ratio was 75% and 67%, respectively. During the second quarter of 2006, the mortgage operations acquired or originated \$2.2 billion of residential mortgages with an original weighted average credit score of 686 and an original weighted average LTV ratio of 73%. ICCC also originated \$277.9 million of commercial mortgages with a weighted average credit score of 733, a weighted average debt service cover ratio of 1.21 and an original weighted average LTV ratio of 66%.

We monitor our sub-servicers to make sure that they perform loss mitigation, foreclosure and collection functions according to our servicing guide. This includes an effective and aggressive collection effort in order to minimize the number of mortgages becoming seriously delinquent. When resolving delinquent mortgages, sub-servicers are required to take timely and aggressive action. The sub-servicer is required to determine payment collection under various circumstances, which will result in maximum financial benefit. We accomplish this by either working with the borrower to bring the mortgage current or by foreclosing and liquidating the property. We perform ongoing reviews of mortgages that display weaknesses and believe that we maintain an adequate loss allowance on the mortgages. When a borrower fails to make required payments on a mortgage and does not cure the delinquency within 60 days, we generally record a notice of default and commence foreclosure proceedings. If the mortgage is not reinstated within the time period permitted by law for reinstatement, the property may then be sold at a foreclosure sale. At foreclosure sales, we generally acquire title to the property. As of June 30, 2006, our long-term mortgage portfolio included 4.16% of mortgages that were 60 days or more delinquent compared to 3.12% as of December 31, 2005.

The following table summarizes mortgages that we own, including securitized mortgage collateral, mortgages held for long-term investment and mortgages held-for-sale, that were 60 or more days delinquent for the periods indicated (in thousands):

	At June 30, 2006	At December 31, 2005
60 - 89 days delinquent	\$ 284,199	\$ 300,039
90 or more days delinquent	283,185	221,581

Foreclosures	245,294	161,414
Delinquent bankruptcies	48,597	50,314
Total 60 or more days delinquent	\$ 861,275	\$ 733,348

Non-performing assets consist of mortgages that are 90 days or more delinquent, including loans in foreclosure and delinquent bankruptcies. It is our policy to place a mortgage on non-accrual status when it becomes 90 days delinquent and any previously accrued interest will be reversed from revenue. When real estate is acquired in settlement of loans, or other real estate owned, the mortgage is written-down to a percentage of the property's appraised value or broker's price opinion less anticipated selling costs. As of June 30, 2006, non-performing assets as a percentage of total assets was 2.89% compared to 1.73% as of December 31, 2005.

The following table summarizes mortgages that we own, including securitized mortgage collateral, mortgages held for long-term investment and mortgages held-for-sale, that were non-performing for the periods indicated (in thousands):

	At June 30, 2006	At December 31, 2005
90 or more days delinquent, foreclosures and delinquent bankruptcies	\$ 577,076	\$ 433,309
Other real estate owned	80,068	46,351
Total non-performing assets	\$ 657,144	\$ 479,660

Although the balance of REO has increased since December 31, 2005, the weighted average aging of the REO properties has improved.

Prepayment Risk. The Company uses prepayment penalties as a method of partially mitigating prepayment risk. Mortgage industry evidence suggests that the increase in home appreciation rates and lower payment option mortgage products over the last three years was a significant factor affecting borrowers refinancing decisions through 2005. As a result, mortgage prepayment rates accelerated during 2005 as it appeared that borrowers were willing to pay prepayment penalties in order to cash out or obtain lower monthly payments by refinancing into other mortgage products. More recent

behavior in our securitized mortgage collateral reflects some degree of reduced prepayments with the three-month constant prepayment rate (CPR) declining to 37% from 38% as of December 31, 2005.

During the six months ended June 30, 2006, 82% of Alt-A mortgages acquired by the long-term investment operations from the mortgage operations had prepayment penalty features ranging from six-months to five years. As of June 30, 2006, 75% and 100% of mortgages held as residential and commercial securitized mortgage collateral had prepayment penalties, respectively. As of June 30, 2006, the twelve-month CPR of mortgages held as securitized mortgage collateral was 38% as compared to a 28% twelve-month CPR as of June 30, 2005. Prepayment penalties are charged to borrowers for mortgages that are paid early and recorded as interest income on our consolidated financial statements. Interest income from prepayment penalties helps offset amortization of loan premiums and securitization costs. During the first six months of 2006, prepayment penalties received from borrowers were recorded as interest income and increased 10 basis points to 21 basis points of mortgage assets as compared to 11 basis points of mortgage assets in the first six months of 2005.

Liquidity Risk. We employ a leverage strategy to increase assets by financing our long-term mortgage portfolio primarily with securitized mortgage borrowings, reverse repurchase agreements and capital, then using cash proceeds to acquire additional mortgage assets. We retain ARMs and FRMs that are acquired and originated from the mortgage and commercial operations and finance the acquisition of those mortgages, during this accumulation period, with reverse repurchase agreements. After accumulating a pool of mortgages we sell the mortgages in the form of securitized mortgage collateral, whole loan sales, or REMIC's. Our strategy is to sell or securitize our mortgages within 90 days in order to reduce the accumulation period that mortgages are outstanding on short-term reverse repurchase facilities, which reduces our exposure to margin calls and reduces spread risk on these facilities. Securitized mortgage borrowings are classes of bonds that are sold to investors of mortgage-backed securities and as such are not subject to margin calls. In addition, the securitized mortgage borrowings generally require a smaller initial cash investment as a percentage of mortgages financed than does interim reverse repurchase financing. We continually monitor our leverage ratio and liquidity levels to insure that we are adequately protected against adverse changes in market conditions. For additional information regarding liquidity refer to "Liquidity and Capital Resources."

Interest Rate Risk. Refer to Item 3. "Quantitative and Qualitative Disclosures About Market Risk."

Results of Operations

For the Three Months Ended June 30, 2006 compared to the Three Months Ended June 30, 2005

Condensed Statements of Operations Data (dollars in thousands, except share data)

	For the Three Months Ended June 30,			
	2006	2005	Increase (Decrease)	% Change
Interest income	\$ 313,759	\$ 309,785	\$ 3,974	1%
Interest expense	328,506	243,632	84,874	35
Net interest income	(14,747)	66,153	(80,900)	(122)
(Recovery of) provision for loan losses	(45)	5,711	(5,756)	(101)
Net interest income after provision for loan losses	(14,702)	60,442	(75,144)	(124)
Total non-interest income	61,948	(79,384)	141,332	178
Total non-interest expense	32,898	40,182	(7,284)	(18)
Income tax benefit	(12,008)	(4,124)	7,884	191

Net earnings (loss)	\$ 26,356	\$ (55,000)	\$ 65,588	119%
Net earnings (loss) per share - diluted	\$ 0.30	\$ (0.78)	\$ 1.08	138%
Dividends declared per common share	\$ 0.25	\$ 0.75	\$ (0.50)	(67)%

24

For the Six Months Ended June 30, 2006 compared to the Six Months Ended June 30, 2005

Condensed Statements of Operations Data
(dollars in thousands, except share data)

	For the Six Months Ended June 30,			
	2006	2005	Increase (Decrease)	% Change
Interest income	\$ 648,964	\$ 587,164	\$ 61,800	11%
Interest expense	652,236	439,905	212,331	48
Net interest (expense) income	(3,272)	147,259	(150,531)	(102)
Provision for loan losses	105	11,785	(11,680)	(99)
Net interest (expense) income after provision for loan losses	(3,377)	135,474	(138,851)	(102)
Total non-interest income	169,688	52,421	117,267	224
Total non-interest expense	68,248	75,872	(7,624)	(10)
Income tax benefit	(13,859)	(6,587)	7,272	110
Net earnings	\$ 111,922	\$ 118,610	\$ (21,232)	(18)%
Net earnings per share — diluted	\$ 1.37	\$ 1.46	\$ (0.09)	(6)%
Dividends declared per common share	\$ 0.50	\$ 1.50	\$ (1.00)	(67)%

Net Interest Income

We earn interest income primarily on mortgage assets which include securitized mortgage collateral, mortgages held-for-investment, mortgages held-for-sale, finance receivables and investment securities available-for-sale, or collectively, "mortgage assets," and, to a lesser extent, interest income earned on cash and cash equivalents. Interest expense is primarily interest paid on borrowings on mortgage assets, which include securitized mortgage borrowings and reverse repurchase agreements.

The following table summarizes average balance, interest and weighted average yield on mortgage assets and borrowings on mortgage assets for the periods indicated (dollars in thousands):

25

	For the Three Months Ended June 30,					
	2006			2005		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
MORTGAGE ASSETS						
Subordinated securities collateralized						
by mortgages	\$ 17,597	\$ 457	10.39%	\$ 25,245	\$ 320	5.07%
Securitized mortgage collateral (1)	21,956,653	282,948	5.15%	23,440,857	264,359	4.51%
Mortgages held-for-investment and held-for-sale	1,493,017	22,826	6.12%	2,397,955	38,907	6.49%
Finance receivables	270,151	5,032	7.45%	341,905	4,753	5.56%
Total mortgage assets\ interest income	\$ 23,737,418	\$ 311,263	5.25%	\$ 26,205,962	\$ 308,339	4.71%
BORROWINGS						
Securitized mortgage borrowings	\$ 21,506,608	\$ 302,744	5.63%	\$ 23,024,518	\$ 216,255	3.76%
Reverse repurchase agreements	1,590,151	23,456	5.90%	2,541,772	25,982	4.09%
Total borrowings on mortgage assets\ interest expense	\$ 23,096,759	\$ 326,200	5.65%	\$ 25,566,290	\$ 242,237	3.79%
Net Interest Spread (2)			(0.40)			0.92%
Net Interest Margin (3)			(0.25)			1.01%
Net Interest (expense) Income on						
Mortgage Assets		\$ (14,937)	(0.25)		\$ 66,102	1.01%
Less: Accretion of loan discounts (4)		(18,153)	(0.31)		(20,553)	(0.31)

Adjusted by net cash receipts (payments) on derivatives (5)	55,868	0.94	(1,456)	(0.02)
Adjusted Net Interest Margin (6)	<u>\$ 22,778</u>	0.38%	<u>\$ 44,093</u>	0.67%
Effect of amortization of loan premiums and securitization costs (7)				
	\$ 63,978	(1.08)	\$ 73,536	(1.12)

	For the Six Months Ended June 30,					
	2006			2005		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
MORTGAGE ASSETS						
Subordinated securities collateralized by mortgages	\$ 28,816	\$ 1,177	8.17%	\$ 25,219	\$ 652	5.17%
Securitized mortgage collateral (1)	22,727,668	580,457	5.11%	22,745,368	508,734	4.47%
Mortgages held-for-investment and held-for-sale	1,634,161	53,198	6.51%	2,042,039	65,135	6.38%
Finance receivables	290,315	9,807	6.76%	363,242	9,839	5.42%
Total mortgage assets\ interest income	<u>\$ 24,680,960</u>	<u>\$ 644,639</u>	5.22%	<u>\$ 25,175,868</u>	<u>\$ 584,360</u>	4.64%
BORROWINGS						
Securitized mortgage borrowings	\$ 22,257,080	\$ 598,219	5.38%	\$ 22,387,127	\$ 395,722	3.54%
Reverse repurchase agreements	1,754,160	49,329	5.62%	2,209,170	42,744	3.87%
Total borrowings on mortgage assets\ interest expense	<u>\$ 24,011,240</u>	<u>\$ 647,548</u>	5.39%	<u>\$ 24,596,297</u>	<u>\$ 438,466</u>	3.57%
Net Interest Spread (2)			(0.17)			1.07%
Net Interest Margin (3)			(0.02)			1.16%
Net Interest (expense) Income on Mortgage Assets		\$ (2,909)	(0.02)		\$ 145,894	1.16%
Less: Accretion of loan discounts (4)		(34,073)	(0.28)		(37,585)	(0.30)
Adjusted by net cash receipts (payments) on derivatives (5)		96,004	0.78		(15,183)	(0.12)
Adjusted Net Interest Margin (6)		<u>\$ 59,022</u>	0.48%		<u>\$ 93,126</u>	0.74%
Effect of amortization of loan premiums and securitization costs (7)						
		\$ 126,477	(1.02)		\$ 138,599	(1.10)

- Interest includes amortization of acquisition cost on mortgages acquired from the mortgage operations and accretion of loan discounts.
- Net interest spread on mortgage assets is calculated by subtracting the weighted average yield on total borrowings on mortgage assets from the weighted average yield on total mortgage assets.
- Net interest margin on mortgage assets is calculated by subtracting interest expense on total borrowings on mortgage assets from interest income on total mortgage assets and then dividing by total average mortgage assets.
- Yield represents income from the accretion of loan discounts, as defined in (1), divided by total average mortgage assets.
- Yield represents net cash (payments) receipts on derivatives divided by total average mortgage assets.
- Adjusted net interest margin on mortgage assets is calculated by subtracting interest expense on total borrowings on mortgage assets, accretion of loan discounts and net cash (payments) receipts on derivatives from interest income on total mortgage assets and dividing by total average mortgage assets. Net cash (payments) receipts on derivatives are a component of realized gain (loss) on derivatives on the consolidated statements of operations. Adjusted net interest margins on mortgage assets is a non-GAAP financial measurement, however, the reconciliation provided in this table is intended to meet the requirements of Regulation G as promulgated by the SEC for the presentation of non-GAAP financial measurements. We believe that the presentation of adjusted net interest margin on mortgage assets is useful information for our investors as it more closely reflects the true economics of net interest margins on mortgage assets.
- The amortization of loan premiums and securitization costs are components of interest income and interest expense, respectively. Yield represents the cost of amortization of net loan premiums and securitization costs divided by total average mortgage assets.

Decreases in net interest income were primarily due to a decline in net interest margins on mortgage assets primarily caused by the following:

- increase in one-month LIBOR rate underlying borrowings only partially offset by realized gain (loss) from derivative instruments;

- differences in interest rate adjustment periods;
- prepayments of higher yielding mortgages; and
- a more challenging competitive environment.

Second Quarter 2006 vs. Second Quarter 2005

Net interest income for the second quarter of 2006 decreased to a net expense of \$14.7 million as compared to net interest income of \$66.2 million for 2005. The quarter-over-quarter decrease in net interest income of \$80.9 million was primarily due to net interest margins on mortgage assets declining by 126 basis points to (0.25)% for 2006 as compared to 1.01% for 2005. Net interest margin on mortgage assets declined as one-month LIBOR, which is the interest rate index used to price borrowing costs on securitized mortgage and reverse repurchase borrowings, rose approximately 200 basis points since the second quarter of 2005 while mortgage assets over the same period did not re-price upward as quickly. This resulted in an increase in interest expense of 35% to \$328.5 million during the quarter ended June 30, 2006 as compared to \$243.6 million during the quarter ended June 30, 2005. Adjusted net interest margins on mortgage assets, as defined in the yield table above, declined by 29 basis points to 0.38% during the second quarter of 2006 as compared to 0.67% during the second quarter of 2005. The decrease in adjusted net interest margins on mortgage assets was primarily due to a negative variance of 186 basis points in borrowing costs partially offset by a favorable variance of 96 basis points on realized gains from derivative assets and a favorable variance of 54 basis points on mortgage assets as coupons adjust.

Since the second quarter of 2005, the Federal Reserve raised short-term interest rates, which effected movements in one-month LIBOR, approximately 200 basis points. This caused borrowing costs on adjustable rate securitized mortgage borrowings, which are tied to one-month LIBOR to re-price monthly without limitation, to rise at a faster pace than coupons on LIBOR ARMs securing securitized mortgage borrowings, which generally re-price every six months with limitation. LIBOR ARMs held in our long-term investment portfolio are subject to the following interest rate risks:

- interest rate adjustment limitations on mortgages held for long-term investment due to periodic and lifetime interest rate cap features as compared to borrowings which are not subject to adjustment limitations;
- mismatched interest rate re-pricing periods between mortgages held for long-term investment, which generally re-price every six months, and borrowings, which re-price every month in regards to securitized mortgage borrowings and daily in regards to reverse repurchase agreements; and
- uneven and unequal movements in the interest rate indices used to re-price mortgages held for long-term investment, which are generally indexed to one-, three- and six-month LIBOR and one-year LIBOR, and borrowings, which are generally indexed to one-month LIBOR.

Along with an increase in short-term interest rates, our expectation, based on past experience, was that we would see a corresponding decline in mortgage prepayment speeds. However, mortgage prepayment speeds continued at heightened levels during 2005. There is mortgage industry evidence that documents a substantial increase in home appreciation rates over the last three years which has been a significant factor affecting prepayment patterns of residential borrowers. Borrowers appear willing to use home equity to pay loan prepayment penalties in order to obtain lower monthly payments by refinancing into other mortgage products, such as interest-only and other alternative mortgage products. More recent behavior in our securitized mortgage collateral reflects some degree of reduced prepayments with the three-month CPR rate declining to 35% as of June 30, 2006 from 38% as of December 31, 2005.

Amortization of loan premiums and securitization expenses decreased by 4 basis points to 1.08% of average mortgage assets during the second quarter of 2006 as compared to 1.12% of average mortgage assets during the same period in 2005. A substantial portion of our long-term mortgage investment portfolio consists of mortgages with prepayment penalty features that are primarily designed to help minimize the rate of early mortgage prepayments. However, if borrowers do prepay on mortgages, a prepayment penalty is charged which helps partially offset additional amortization of loan premiums and securitization costs related to the prepaid mortgages. During the second quarter of 2006, prepayment penalties received from borrowers was recorded as interest income and increased 10 basis points to 23 basis points of mortgage assets as compared to 13 basis points of mortgage assets in the second quarter of 2005.

Additionally, the net interest margin continues to be impacted by the difficult competitive environment facing mortgage portfolio lenders. As a result, net interest margins continue to tighten on newly originated loans. Furthermore, a rise

in short-term rates and a decline in long term rates has resulted in a flattening or inversion of the yield curve, adding pressure to mortgage lending profitability.

During the second quarter of 2006, adjusted net interest margins on mortgage assets, which is a non-GAAP financial measurement as indicated in the yield table above, decreased by 29 basis points as compared to a decline of 126 basis points on net interest margin on mortgage assets. Adjusted net interest margin on mortgage assets did not decline as much as net interest margin on mortgage assets primarily due to a 96 basis point increase in realized gain (loss) from derivative instruments relative to total average mortgage assets. Realized gains from derivative instruments partially offset the decline in adjusted net interest margins on mortgage assets which was caused by the factors described above.

Adjusted net interest margins were also affected by the following during the second quarter of 2006:

- our interest rate risk management policies generally include the employment of balance guarantees that limit our derivatives to no more than 100% coverage of the principal amount outstanding on certain securitized mortgage borrowings at any given time; and
- actual mortgage prepayments and the corresponding repayment of securitized mortgage borrowings exceeded the pre-determined amortization schedule of the notional amount of derivative instruments.

Our interest rate risk management policies are formulated with the intent to offset the potential adverse effects of changing interest rates primarily associated with cash flows on adjustable rate securitized mortgage borrowings. However, as a result of the combination of the factors listed above, the interest rate spread differential between ARMs and adjustable rate securitized mortgage borrowings compressed, which decreased net interest margins on mortgage assets. By design, our current interest rate risk management program provides 20% to 25% coverage of the outstanding principal balance of our six month LIBOR ARMs and 85% to 98% coverage of the outstanding principal balance of intermediate, or hybrid, ARMs at the point in time that we securitize the mortgages.

First Half 2006 vs. First Half 2005

Net interest income for the first six months of 2006 decreased to a net expense of \$3.3 million as compared to net interest income of \$147.2 million for 2005. The decrease in net interest income of \$150.5 million was primarily due to net interest margins on mortgage assets declining by 118 basis points to (0.02)% for 2006 as compared to 1.16% for 2005. Net interest margin on mortgage assets declined as one-month LIBOR, which is the interest rate index used to price borrowing costs on securitized mortgage and reverse repurchase borrowings, rose approximately 200 basis points since the second quarter of 2005 while mortgage assets over the same period did not re-price upward as quickly. This resulted in an increase in interest expense of 48% to \$652.2 million as of June 30, 2006 as compared to \$439.9 million as of June 30, 2005. Adjusted net interest margins on mortgage assets, as defined in the yield table above, declined by 26 basis points to 0.48% during the first half of 2006 as compared to 0.74% during the first half of 2005. The decrease in adjusted net interest margins on mortgage assets was primarily due to a negative variance of 182 basis points in borrowing costs partially offset by a favorable variance of 90 basis points on realized gains from derivative assets and a favorable variance of 58 basis points on mortgage assets as coupons adjust.

Since the second quarter of 2005, the Federal Reserve raised short-term interest rates, which effected movements in one-month LIBOR, approximately 200 basis points. This caused borrowing costs on adjustable rate securitized mortgage borrowings, which are tied to one-month LIBOR and re-price monthly without limitation, to rise at a faster pace than coupons on LIBOR ARMs securing securitized mortgage borrowings, which generally re-price every six months with limitation. LIBOR ARMs held in our long-term investment portfolio are subject to the following interest rate risks:

- interest rate adjustment limitations on mortgages held for long-term investment due to periodic and lifetime interest rate cap features as compared to borrowings which are not subject to adjustment limitations;
- mismatched interest rate re-pricing periods between mortgages held for long-term investment, which generally re-price every six months, and borrowings, which re-price every month in regards to securitized mortgage borrowings and daily in regards to reverse repurchase agreements; and
- uneven and unequal movements in the interest rate indices used to re-price mortgages held for long-term investment, which are generally indexed to one-, three- and six-month LIBOR and one-year LIBOR, and borrowings, which are generally indexed to one-month LIBOR.

Along with an increase in short-term interest rates, our expectation, based on past experience, was that we would see a corresponding decline in mortgage prepayment speeds. However, mortgage prepayment speeds continued at heightened levels during 2005. There is mortgage industry evidence that documents a substantial increase in home appreciation rates over the last three years which has been a significant factor affecting prepayment patterns of residential borrowers. Borrowers appear willing to use home equity to pay loan prepayment penalties in order to obtain lower monthly payments by refinancing into other mortgage products, such as interest-only and other alternative mortgage products. More recent behavior in our securitized mortgage collateral reflects some degree of reduced prepayments with the three-month CPR rate declining to 35% as of June 30, 2006 from 38% as of December 31, 2005.

Amortization of loan premiums and securitization expenses decreased by 8 basis points to 1.02% of average mortgage assets during the first half of 2006 as compared to 1.10% of average mortgage assets during the same period in 2005. A substantial portion of our long-term mortgage investment portfolio consists of mortgages with prepayment penalty features that are primarily designed to help minimize the rate of early mortgage prepayments. However, if borrowers do prepay on mortgages, a prepayment penalty is charged which helps partially offset additional amortization of loan premiums and securitization costs related to the prepaid mortgages. During the first six months of 2006, prepayment penalties received from borrowers was recorded as interest income and increased 10 basis points to 21 basis points of mortgage assets as compared to 11 basis points of mortgage assets in the first six months of 2005.

Additionally, the net interest margin continues to be impacted by the difficult competitive environment facing mortgage portfolio lenders. As a result, net interest margins continue to tighten on newly originated loans. Furthermore, a rise in short-term rates and a decline in long term rates has resulted in a flattening or inversion of the yield curve, adding pressure to mortgage lending profitability.

During the first half of 2006, adjusted net interest margins on mortgage assets, which is a non-GAAP financial measurement as indicated in the yield table above, decreased by 26 basis points as compared to a decline of 118 basis points on net interest margin on mortgage assets. Adjusted net interest margin on mortgage assets did not decline as much as net interest margin on mortgage assets primarily due to a 90 basis point increase in realized gain (loss) from derivative instruments relative to total average mortgage assets. Realized gains from derivative instruments partially offset the decline in adjusted net interest margins on mortgage assets which was caused by the factors described above.

Adjusted net interest margins were also affected by the following during the second half of 2006:

- our interest rate risk management policies generally include the employment of balance guarantees that limit our derivatives to no more than 100% coverage of the principal amount outstanding on certain securitized mortgage borrowings at any given time; and

actual mortgage prepayments and the corresponding repayment of securitized mortgage borrowings exceeded the pre-determined amortization schedule of the notional amount of derivative instruments.

Our interest rate risk management policies are formulated with the intent to offset the potential adverse effects of changing interest rates primarily associated with cash flows on adjustable rate securitized mortgage borrowings. However, as a result of the combination of the factors listed above, the interest rate spread differential between ARMs and adjustable rate securitized mortgage borrowings compressed, which compressed net interest margins on mortgage assets. By design, our current interest rate risk management program provides 20% to 25% coverage of the outstanding principal balance of our six month LIBOR ARMs and 85% to 98% coverage of the outstanding principal balance of intermediate, or hybrid, ARMs at the point in time that we securitize the mortgages.

For further information on our interest rate risk management policies refer to Item 3. “Quantitative and Qualitative Disclosures About Market Risk.”

Provision for Loan Losses

The Company provides for loan losses in accordance with its policies that include a detailed analysis of historical loan performance data which is analyzed for loss performance and prepayment performance by product type, origination year and securitization issuance. The results of that analysis are then applied to the current mortgage portfolio and an estimate is created. The Company’s general allowance for loan losses reflects the expectation that losses inherent in the portfolio will exceed the level of annualized losses we are currently experiencing.

The allowance for loan losses of \$68.1 million at June 30, 2006 was comprised of specific reserves for estimated hurricane losses of \$8.1 million, for finance receivables of \$10.7 million and a loan portfolio reserve of \$49.3 million. There was no change in the specific reserve for finance receivables during the six month period ended June 30, 2006 due to no change in status of the underlying loans. During the six month period ended June 30, 2006, specific reserves on hurricane losses decreased by \$4.7 million while the loan portfolio reserve decreased by \$5.8 million. The decrease in the specific reserve for estimated hurricane losses was due to updated property inspection report information and pay off of loans. The decrease in the loan portfolio reserve was due to a decrease in the portfolio of securitized mortgage collateral and mortgages held for investment. The ratio of loan portfolio reserve to annualized loan losses was 2.33 at June 30, 2006. The Company believes the total allowance for loan losses is adequate to absorb losses inherent in the portfolio at June 30, 2006.

For further information on delinquencies in our long-term investment portfolio and non-performing assets refer to “Financial Condition—Credit Risk.”

Non-Interest Income

Changes in Non-Interest Income (dollars in thousands)

	For the Three Months Ended June 30,			
	2006	2005	Increase (Decrease)	% Change
Realized gain (loss) from derivative instruments	\$ 55,868	\$ (1,456)	\$ 57,324	3937%
Change in fair value of derivative instruments	11,504	(97,679)	109,183	112
Gain on sale of loans	16,548	19,094	(2,546)	(13)
Provision for repurchases	(12,773)	(1,650)	11,123	674
Loss on lower of cost or market writedown	(18,780)	—	18,780	—
Other income	9,581	2,307	7,274	315
Total non-interest income	\$ 61,948	\$ (79,384)	\$ 141,332	178%

Realized Gain (Loss) from Derivative Instruments. Realized gain (loss) from derivative instruments increased to \$55.9 million during the second quarter of 2006 as compared to \$(1.5) million during the second quarter of 2005, or 94 basis points of total average mortgage assets during the second quarter of 2006 as compared to (2) basis points of total average mortgage assets during the second quarter of 2005. The increase in realized gain (loss) from derivative instruments is due to the approximately 200 basis point increase in one-month LIBOR from the end of the second quarter 2005, which has caused the floating rate payment received on swaps to increase above the fixed payment made. Realized gain (loss) from derivative instruments are recorded as current period expense or revenue on our consolidated financial statements and are included in the calculation of taxable income.

Change in Fair Value of Derivative Instruments. The change in fair value of derivative instruments increased to \$11.5 million during the second quarter of 2006 as compared to \$(97.7) million during the second quarter of 2005. The amount of market valuation adjustment is the result of changes in the expectation of future interest rates. We primarily enter into derivative contracts to offset changes in cash flows associated with securitized mortgage borrowings. In our consolidated financial statements, we record a market valuation adjustment for these derivatives, as well as other derivatives used by the mortgage operations to hedge our loan pipeline and mortgage loans held for sale, as current period expense or revenue. The change in fair value of derivatives at IMH is excluded for purposes of calculating taxable income as shown in the reconciliation table of net earnings to estimated taxable income in the “Taxable Income” table.

Gain on Sale of Loans. The quarter-over-quarter decrease in gain on sale of loans was primarily due to a 9% decrease in loan sales volume to \$2.1 billion, or 79 basis points per loan for the second quarter of 2006 as compared to \$2.3 billion, or 83 basis points per loan for the second quarter of 2005. Additionally, we use derivatives to protect the market value of mortgages when we have established a rate-lock commitment on a particular mortgage prior to its close and eventual sale or securitization. Any changes in interest rates on mortgages that we have committed to acquire at a particular rate until we sell or securitize the mortgage generally results in an increase or decrease in the market value of that mortgage. During the second quarter of 2006, the value of these derivatives resulted in a gain of \$3.0 million as compared to a loss of \$8.2 million during the second quarter of 2005.

Provision for Repurchases. The provision for repurchases increased to \$12.8 million during the second quarter 2006 as compared to \$1.7 million for the second quarter of 2005. The increase in provision for repurchases was primarily due to an increase in whole loan sales of mortgages the Company acquired in the third and fourth quarters of 2005, which were sold in the fourth quarter of 2005 and the first quarter of 2006, and included timing differences in the recourse terms compared to those the Company provides to its investors. Many of these loans suffered early payment default and exhibited poor paying habits. The Company believes that it has taken the necessary steps to reduce its exposure to similar events in the future. As such, the Company established a provision for estimated losses related to these loans.

Loss on Lower of Cost or Market Writedown. The loss on lower of cost or market writedown was primarily due to the writedown on loans repurchased in the second quarter related to loans sold on a whole loan basis rather than securitized. Generally the representations and warranties on whole loan sales are more extensive than on a securitization. The company repurchased approximately \$100 million in loans for reasons that primarily included early payment default or exhibited poor pay habits. As a result, approximately 13% of loans held-for-sale at June 30, 2006, were delinquent with an estimated fair value of 81%, resulting in the significant loss on lower of cost or market.

Changes in Non-Interest Income
(dollars in thousands)

	For the Six Months Ended June 30,			
	2006	2005	Increase (Decrease)	% Change
Realized gain (loss) from derivative instruments	\$ 96,004	\$ (15,183)	\$ 111,187	732%
Change in fair value of derivative instruments	62,933	33,639	29,294	87
Gain on sale of loans	30,741	31,945	(1,204)	(4)
Provision for repurchases	(23,110)	(5,364)	17,746	331
Loss on lower of cost or market writedown	(15,283)	—	15,283	—
Other income	18,403	7,384	11,019	149
Total non-interest income	<u>\$ 169,688</u>	<u>\$ 52,421</u>	<u>\$ 117,267</u>	224%

Realized Gain (Loss) from Derivative Instruments. Realized gain (loss) from derivative instruments increased to \$96.0 million during the first six months of 2006 as compared to \$(15.2) million during the first six months of 2005, or 78 basis points of total average mortgage assets during the first six months of 2006 as compared to (12) basis points of total average mortgage assets during the first six months of 2005. The increase in realized gain (loss) from derivative instruments is due to an approximately 200 basis point increase in one-month LIBOR from the end of the second quarter of 2005, which has caused the floating rate payment received on swaps to increase above the fixed payment made. Realized gain (loss) from derivative instruments is recorded as current period expense or revenue on our consolidated financial statements and is included in the calculation of taxable income.

Change in Fair Value of Derivative Instruments. The change in fair value of derivative instruments increased to \$62.9 million during the first six months of 2006 as compared to \$33.6 million during the first six months of 2005. The amount of market valuation adjustment is the result of changes in the expectation of future interest rates. We primarily enter into derivative contracts to offset changes in cash flows associated with securitized mortgage borrowings. In our consolidated financial statements, we record a market valuation adjustment for these derivatives, as well as other derivatives used by the mortgage operations to hedge our loan pipeline and mortgage loans held for sale, as current period expense or revenue. The change in fair value of derivatives at IMH is excluded for purposes of calculating taxable income as shown in the reconciliation table of net earnings to estimated taxable income in the "Taxable Income" table.

Gain on Sale of Loans. The decrease in gain on sale of loans for the six months ended June 30, 2006 was primarily due to a decrease in the associated net gains related to the subsequent sale of whole loans. During the first six months of 2006, net gains on whole loans decreased to 62 basis points per loan as compared to 103 basis points for the same period in 2005. Additionally, we use derivatives to protect the market value of mortgages when we have established an interest rate-lock commitment on a particular mortgage prior to its close and eventual sale or securitization. Any changes in interest rates on mortgages that we have committed to acquire at a particular rate until we sell or securitize the mortgage generally results in an increase or decrease in the market value of that mortgage. During the six months ended June 30, 2006, the value of these derivatives resulted in a loss of \$83 thousand as compared to a loss of \$2.9 million during the same period in 2005.

Provision for Repurchases. Provision for repurchases increased to \$23.1 million during the six months ended June 30, 2006 as compared to \$5.4 million for the six months ended June 30, 2005. The increase in provision for repurchases was primarily due to an increase in whole loan sales of mortgages the Company acquired in the third and fourth quarters of 2005, which were sold in the fourth quarter of 2005 and the first quarter of 2006, and included timing differences in the recourse terms compared to those the Company provides to its investors. Many of these loans suffered early payment default and exhibited poor paying habits. The Company believes that it has taken the necessary steps to reduce its exposure to similar events in the future. As such, the Company established a provision for estimated losses related to these loans.

Loss on Lower of Cost or Market Writedown. The loss on lower of cost or market writedown was primarily due to the writedown on loans repurchased in the second quarter related to loans sold on a whole loan basis rather than securitized. Generally the representations and warranties on whole loan sales are more extensive than on a securitization. The company repurchased approximately \$100 million in loans for reasons that primarily included early payment default or exhibited poor pay habits. As a result, approximately 13% of loans held-for-sale at June 30, 2006, were delinquent with an estimated fair value of 81%, resulting in the significant loss on lower of cost or market.

Changes in Non-Interest Expense
(dollars in thousands)

	For the Three Months Ended June 30,			
	2006	2005	Increase (Decrease)	% Change
Personnel expense	\$ 16,710	\$ 20,810	\$ (4,100)	(20)%
General and administrative and other expense	4,524	6,560	(2,036)	(31)
Professional services	2,192	2,021	171	8
Equipment expense	1,809	1,236	573	46
Occupancy expense	1,244	1,171	73	6
Data processing expense	744	836	(92)	(11)
Total operating expense (1)	<u>27,223</u>	<u>32,634</u>	<u>(5,411)</u>	<u>(17)</u>
Amortization of deferred charge	5,915	6,792	(877)	(13)
Amortization and impairment of mortgage servicing rights	381	736	(355)	(48)
(Gain) loss on sale of other real estate owned	(621)	20	(641)	3,205
Total non-operating expense (2)	<u>5,675</u>	<u>7,548</u>	<u>(1,873)</u>	<u>(25)</u>
Total non-interest expense	<u>\$ 32,898</u>	<u>\$ 40,182</u>	<u>\$ (7,284)</u>	<u>(18)%</u>

33

Changes in Non-Interest Expense
(dollars in thousands)

	For the Six Months Ended June 30,			
	2006	2005	Increase (Decrease)	% Change
Personnel expense	\$ 35,331	\$ 39,690	\$ (4,359)	(11)%
General and administrative and other expense	9,600	11,473	(1,873)	(16)
Professional services	4,509	5,440	(931)	(17)
Equipment expense	3,319	2,383	936	39
Occupancy expense	2,612	2,315	297	13
Data processing expense	2,110	1,779	331	19
Total operating expense (1)	<u>57,481</u>	<u>63,080</u>	<u>(5,599)</u>	<u>(9)</u>
Amortization of deferred charge	11,011	12,595	(1,584)	(13)
Amortization and impairment of mortgage servicing rights	732	1,026	(294)	(29)
(Gain) loss on sale of other real estate owned	(976)	(829)	(147)	(18)
Total non-operating expense (2)	<u>10,767</u>	<u>12,792</u>	<u>(2,025)</u>	<u>(16)</u>
Total non-interest expense	<u>\$ 68,248</u>	<u>\$ 75,872</u>	<u>\$ (7,624)</u>	<u>(10)%</u>

(1) Operating expenses are primarily related to the mortgage operations personnel, which generally fluctuates in conjunction with increases or decreases in mortgage acquisition and origination volumes.

(2) Non-operating expenses generally relate to existing assets and liabilities and are generally not a function of increases or decreases in mortgage acquisition or origination volumes.

Operating Expense. The decrease in operating expense was primarily due to the following:

- decrease in personnel expenses; and
- decrease in general and administrative and other expense.

2006 to 2005 Quarterly Comparative

Total operating expenses decreased 17% on a quarter-over-quarter basis as personnel expense decreased 20% to \$16.7 million during the second quarter of 2006 as compared to \$20.8 million for the same period in 2005. The quarter over quarter decrease is mainly attributable to a 71% decrease in bonus and incentives to \$2.0 million for the second quarter of 2006 as compared to \$6.8 million for the second quarter of 2005. General and administrative and other expense decreased 31% on a quarter-over-quarter basis as business promotion decreased 58% to \$1.1 million as compared to \$2.6 million for the second quarter of 2005.

2006 to 2005 Six Month Comparative

Total operating expenses decreased 9% for the six months ended June 30, 2006 as personnel expense decreased 11% to \$35.3 million during the second quarter of 2006 as compared to \$39.7 million for the same period in 2005. The decrease is mainly attributable to a 57% decrease in bonus and incentives to \$5.0 million for the six months ended June 30, 2006 as compared to \$11.7 million for the same period in 2005. General and administrative and other expense decreased 16% for the six months ended June 30, 2006 as business promotion decreased 48% to \$2.2 million as compared to \$4.2 million for the same period in 2005.

The following table summarizes the principal balance of mortgage acquisitions and originations for the periods indicated (in thousands):

	For the Three Months Ended June 30,			
	2006		2005	
	Principal Balance	%	Principal Balance	%
By Production Channel:				
Correspondent acquisitions:				
Flow	\$ 1,519,107	61	\$ 1,912,770	34
Bulk	60,079	3	2,911,775	51
Total correspondent acquisitions	1,579,186	64	4,824,545	85
Wholesale and retail originations	622,815	25	638,961	11
Total mortgage operations acquisitions	2,202,001	89	5,463,506	96
Commercial Mortgage Operations	277,905	11	214,597	4
Total acquisitions and originations	\$ 2,479,906	100	\$ 5,678,103	100

2006 to 2005 Quarterly Comparative

As a result of the Company's pricing strategies and a more competitive market, total residential acquisitions and originations for the second quarter of 2006 decreased to \$2.2 billion as compared to \$5.5 billion for the same period in 2005. Pricing strategies and an increasingly competitive market is the primary driver behind the reduction in bulk acquisitions, which decreased to 3% of our total correspondent acquisitions during the second quarter of 2006 as compared to 51% for the same period in 2005. Commercial originations have increased to \$277.9 million for the second quarter of 2006 as compared to \$214.6 million for the same period in 2005. The increase is primarily due to the expansion of our commercial operations in the West Coast and Mid-west regions.

	For the Six Months Ended June 30,			
	2006		2005	
	Principal Balance	%	Principal Balance	%
By Production Channel:				
Correspondent acquisitions:				
Flow	\$ 2,942,015	61	\$ 4,290,170	41
Bulk	191,757	4	4,588,709	44
Total correspondent acquisitions	3,133,772	65	8,878,879	85
Wholesale and retail originations	1,172,364	25	1,248,744	12
Total mortgage operations acquisitions	4,306,136	90	10,127,623	97
Commercial Mortgage Operations	480,685	10	379,901	3
Total acquisitions and originations	\$ 4,786,821	100	\$ 10,507,524	100

2006 to 2005 Six Month Comparative

Acquisitions and originations decreased to \$4.8 billion for the first six months of 2006 as compared to \$10.5 for the same period in 2005. The reduction in acquisitions and originations at the mortgage operations is primarily due to a 96% decrease in bulk acquisitions to \$191.8 million for the first six months of 2006 as compared to \$4.6 billion for the same period in 2005. Pricing strategies and an increasingly competitive market is the primary driver behind the reduction in bulk acquisitions. Commercial originations have increased 27% to \$480.7 million for the first six months of 2006 as compared to \$379.9 million for the same period in 2005 as the Company has hired additional sales personnel to manage and support the growth of the commercial operations into other regions of the United States.

Results of Operations by Business Segment

Long-Term Investment Operations

Condensed Statements of Operations Data (dollars in thousands)

	For the Three Months Ended June 30,			
	2006	2005	Increase (Decrease)	% Change
Net interest (expense) income	\$ (35,226)	\$ 28,908	\$ (64,134)	(222)%
(Recovery of) provision for loan losses	(45)	5,711	(5,756)	(101)
Net interest expense income after provision for loan losses	(35,181)	23,197	(58,378)	(252)
Realized gain (loss) from derivative instruments	55,851	(1,456)	57,307	3,936
Change in fair value of derivative instruments	7,903	(90,872)	98,775	109
Other non-interest (expense) income	(518)	1,140	(1,658)	(145)

Total non-interest income (loss)	63,236	(91,188)	154,424	169
Non-interest expense	3,680	4,307	(627)	(15)
Net earnings (loss)	\$ 24,375	\$ (72,298)	\$ 96,673	134%

The quarter-over-quarter increase in net earnings was primarily due to the change in fair value on derivative instruments which increased to \$7.9 million for the second quarter of 2006 as compared to a net expense of \$90.9 million for the second quarter of 2005. The market valuation adjustment is the result of changes in the expectation of future interest rates. Additionally, net interest income declined to a net expense of \$35.2 million compared to net interest income of \$28.9 million, primarily due to an increase in borrowing costs, which were substantially offset by realized gain (loss) from derivative instruments, which increased to \$55.9 million for the second quarter of 2006 compared to \$(1.5) million for the second quarter of 2005. Together, net interest income and realized gain (loss) from derivative instruments declined 25% to \$20.6 million for the three months ended June 30, 2006 compared to \$27.5 million for the three months ended June 30, 2005. This decline is primarily attributable to the aforementioned net interest margin compression.

Condensed Statements of Operations Data
(dollars in thousands)

	For the Six Months Ended June 30,			
	2006	2005	Increase (Decrease)	% Change
Net interest (expense) income	\$ (47,314)	\$ 81,027	\$ (128,341)	(158)%
Provision for loan losses	105	11,785	(11,680)	(99)
Net interest income after provision for loan losses	(47,419)	69,242	(116,661)	(168)
Realized gain (loss) from derivative instruments	95,986	(15,183)	111,169	732
Change in fair value of derivative instruments	54,866	38,007	16,859	44
Other non-interest (expense) income	(782)	981	(1,763)	(180)
Total non-interest income	150,070	23,805	126,265	530
Non-interest expense	7,718	7,000	718	10
Net earnings	\$ 94,933	\$ 86,047	\$ 8,886	10%

36

Net interest income declined to a net expense of \$47.3 million compared to net interest income of \$81.0 million, primarily due to an increase in borrowing costs, which were substantially offset by realized gain (loss) from derivative instruments which increased to \$96.0 million for the first six months of 2006 compared to \$(15.2) million for the same period in 2005. Together, net interest income and realized gain (loss) from derivative instruments declined 26% to \$48.7 million for the six months ended June 30, 2006 compared to \$65.8 million for the six months ended June 30, 2005. This decline is primarily attributable to the aforementioned net interest margin compression. Additionally, the change in fair value on derivative instruments increased to \$54.9 million for the first six months of 2006 as compared to \$38.0 million for the same period in 2005. The market valuation adjustment is the result of changes in the expectation of future interest rates.

Mortgage Operations

Condensed Statements of Operations Data
(dollars in thousands)

	For the Three Months Ended June 30,			
	2006	2005	Increase (Decrease)	% Change
Net interest (loss) income	\$ (2,664)	\$ 4,685	\$ (7,349)	(157)%
Gain on sale of loans	19,109	31,515	(12,406)	(39)
Provision for repurchases	(12,773)	(1,650)	(11,123)	(674)
Loss on lower of cost or market writedown	(18,780)	—	(18,780)	—
Other income (loss)	9,791	(5,792)	15,583	269
Non-interest expense and income taxes	10,766	29,501	(18,735)	(64)
Net earnings	\$ (16,083)	\$ (743)	\$ (15,340)	(2065)%

Gain on Sale of Loans. Gain (loss) on sale of loans decreased \$12.4 million to \$19.1 million for the second quarter of 2006 as compared to \$31.5 million for the same period in 2005. The decrease in gain on sale of loans is primarily attributable to a 9% decrease in loan sales volume to \$2.1 billion for the second quarter of 2006 as compared to \$2.3 billion for the same period in 2005. Additionally, the long-term investment operations did not retain any loans for investment purposes during the second quarter of 2006 as compared to \$3.1 billion for the same period in 2005. However, the long-term investment operations retained the residual interest in the ISAC REMIC 2006-2 securitization of approximately \$29.8 million. The mortgage operations use derivatives to protect the market value of mortgages when it establishes a rate-lock commitment on a particular mortgage prior to its close and sale or securitization. During the second quarter of 2006, the value of these derivatives were \$3.0 million as compared to \$(8.4) million for the second quarter of 2005. Any changes in interest rates on mortgages that the mortgage operations has committed to acquire at a particular rate to the time it sells or securitizes the mortgage generally results in an increase or decrease in the market value of that mortgage. The mortgage operations are reflected as a stand-alone entity for segment financial reporting purposes; however, on the consolidated financial statements inter-company loan sales and related gains are eliminated.

Provision for Repurchases. Provision for repurchases increased to \$12.8 million during the second quarter of 2006 as compared to \$1.7 million for the same period in 2005 despite the decrease in the mortgage operations whole loan sales volume. Provision for repurchases increased as a result of an increase in

repurchase requests, mainly early payment default related, during the second quarter of 2006. The increase was substantially related to elevated levels of whole loan sales during 2005.

Loss on Lower of Cost or Market Writedown. Furthermore, net earnings decreased as the Company recorded a LOCOM writedown of \$18.8 million for the quarter ended June 30, 2006 associated with repurchased loans at the mortgage operations. Additionally, the historical timing from sale to repurchase, which is approximately ten months, has exposed the Company to an increasingly higher amount of repurchase requests related to elevated levels of whole loan sales during 2005 as origination volumes peaked at approximately \$22 billion. The historical repurchase percentage to whole loans sales has been approximately 1.25%. The Company believes that repurchases have peaked during the second quarter of 2006 and expects repurchase activity to decline during the latter half of 2006 as loan volumes decrease.

Non-Interest Expense and Income Taxes. Non-interest expense and income taxes decreased to \$10.8 million for the second quarter of 2006 compared to \$29.5 million for second quarter of 2005 primarily due to an increase in the income tax benefit as a result of net losses at the taxable REIT subsidiary during the second quarter of 2006. The income tax benefit increased to \$9.5 million for the second quarter of 2006 compared to income taxes expense of \$556 thousand for the second

37

quarter of 2005. The Company expects to fully utilize the recorded income tax benefit. The Company makes an estimate of the effective tax rate expected to be applicable for the fiscal year when providing for tax expense (benefit).

Condensed Statements of Operations Data
(dollars in thousands)

	For the Six Months Ended June 30,			
	2006	2005	Increase (Decrease)	% Change
Net interest (expense) income	\$ (1,386)	\$ 6,659	\$ (8,045)	(121)%
Gain on sale of loans	39,056	74,744	(35,688)	(48)
Provision for repurchases	(23,110)	(5,364)	(17,746)	(331)
Loss on lower of cost or market writedown	(15,283)	—	(15,283)	—
Other income	21,473	652	20,821	3193
Non-interest expense and income taxes	34,581	61,268	(26,687)	(44)
Net earnings	<u>\$ (13,831)</u>	<u>\$ 15,423</u>	<u>\$ (29,254)</u>	<u>(190)%</u>

Gain on Sale of Loans. Gain (loss) on sale of loans decreased to \$39.1 million for the first six months of 2006 as compared to \$74.7 million for the same period in 2005. The decrease is primarily attributable to inter-company loan sale gains as the long-term investment operations retained for investment purposes \$694.4 million for the first six months of 2006 as compared to \$6.4 billion for the same period in 2005, reducing the associated gains relating to the transfer of those loans by \$38.7 million. The mortgage operations are reflected as a stand-alone entity for segment financial reporting purposes; however, on the consolidated financial statements inter-company loan sales and related gains are eliminated

Provision for Repurchases. Provision for repurchases increased to \$23.1 million for the first six months of 2006 as compared to \$5.4 million for the same period in 2005. Provision for repurchases increased as a result of an increase in whole loan sale volumes at the mortgage operations to \$4.1 billion during the first six months of 2006 as compared to \$2.5 billion for the same period in 2005 and an increase in repurchase requests, mainly early payment default related, which is consistent with the slowdown in the housing market, greater competition and an increase in interest rates. The increase was substantially related to elevated levels of whole loan sales during 2005.

Loss on Lower of Cost or Market Writedown. Furthermore, net earnings decreased as the Company recorded a LOCOM writedown in the second quarter of \$18.8 million associated with repurchased loans at the mortgage operations. Additionally, the historical timing from sale to repurchase, which is approximately ten months, has exposed the Company to an increasingly higher amount of repurchase requests related to elevated levels of whole loan sales during 2005 as origination volumes peaked at approximately \$22 billion. The historical repurchase percentage to whole loans sales has been approximately 1.25%. The Company believes that repurchases have peaked during the second quarter of 2006 and expects repurchase activity to decline during the latter half of 2006 as loan volumes decrease.

Non-Interest Expense and Income Taxes. Non-interest expense and income taxes decreased to \$34.6 million for the first six months of 2006 compared to \$61.3 million for the same period in 2005. An income tax benefit of \$8.0 million was recorded during the first six months of 2006 as compared to income taxes expense of \$5.9 million for the same period in 2005 as a result of net losses at the taxable REIT subsidiary during 2006 compared to nets gains during the same period in 2005. The Company expects to fully utilize the recorded income tax benefit. The Company makes an estimate of the effective tax rate expected to be applicable for the fiscal year when providing for tax expense (benefit).

38

Warehouse Lending Operations

Condensed Statements of Operations Data
(dollars in thousands)

2006	2005	For the Three Months Ended June 30,	
		Increase (Decrease)	% Change

Net interest income	\$ 6,879	\$ 13,638	\$ (6,759)	(50)%
Non-interest income	751	2,230	(1,479)	(66)
Non-interest expense and income taxes	1,627	1,770	(143)	(8)
Net earnings	<u>\$ 6,003</u>	<u>\$ 14,098</u>	<u>\$ (8,095)</u>	(57)%

The quarter-over-quarter decrease in net earnings was primarily due to a decrease in net interest income as interest income on mortgage assets decreased to \$30.2 million in the second quarter of 2006 as compared to \$39.9 million for the same period in 2005 due to the decline in the average balance of outstanding finance receivables. The decrease in interest income was partially offset by a decrease in interest expense on mortgage borrowings of \$2.9 million. Additionally, loan fees decreased \$1.5 million decreasing non-interest income. For the three months ended June 30, 2006 and June 30, 2005, no provision for loan loss was recorded. The warehouse lending operations is reflected as a stand-alone entity for segment financial reporting purposes. However, on the consolidated financial statements inter-company finance receivables and borrowings are eliminated.

Condensed Statements of Operations Data
(dollars in thousands)

	For the Six Months Ended June 30,			
	2006	2005	Increase (Decrease)	% Change
Net interest income	\$ 14,570	\$ 24,980	\$ (10,410)	(42)%
Non-interest income	1,548	4,257	(2,709)	(64)
Non-interest expense and income taxes	3,501	3,855	(354)	(9)
Net earnings	<u>\$ 12,617</u>	<u>\$ 25,382</u>	<u>\$ (12,765)</u>	(50)%

The decrease in net earnings for the six months ended June 30, 2006, was primarily due to a decrease in net interest income as borrowing costs on mortgage assets increased to \$48.7 million for the first half of 2006 as compared to \$42.6 million for the same period in 2005 as one-month LIBOR, which is tied to our borrowing costs, increased approximately 200 basis points since the end of the second quarter of 2005. Additionally, interest income on mortgage assets decreased to \$63.7 million for the six months ended June 30, 2006, as compared to \$68.1 million during the same period in 2005 due to the decline in the average balance of outstanding finance receivables. Net earnings were also impacted by the decrease in loan fees of \$2.6 million. For the six months ended June 30, 2006 and June 30, 2005, no provision for loan loss was recorded. The warehouse lending operations is reflected as a stand-alone entity for segment financial reporting purposes. However, on the consolidated financial statements inter-company finance receivables and borrowings are eliminated.

Commercial Operations

Condensed Statements of Operations Data
(dollars in thousands)

	For the Three Months Ended June 30, 2006
Net interest income	\$ 56
Non-interest income	1,019
Non-interest expense and income taxes	2,696
Net loss	<u>\$ (1,621)</u>

On January 1, 2006, we elected to convert Impac Commercial Capital Corporation "ICCC" from a qualified REIT subsidiary to a taxable REIT subsidiary. Therefore, there is no corresponding quarter over quarter comparison.

Net loss for the commercial operations was \$1.6 million for the second quarter of 2006. Non-interest income was \$1.0 million in the second quarter of 2006 due to the gain on sale of loans of \$2.1 million which was partially offset by the change in fair value of derivative instruments of \$(1.0) million. Offsetting non-interest income was non-interest expense and income taxes of \$2.7 million due to the expansion of our commercial mortgage operations. The commercial operations are reflected as a stand-alone entity for segment financial reporting purposes; however, on the consolidated financial statements inter-company loan sales and related gains are eliminated.

Condensed Statements of Operations Data
(dollars in thousands)

	For the Six Months Ended June 30, 2006
Net interest income	\$ 190
Non-interest income	2,898
Non-interest expense and income taxes	5,105
Net loss	<u>\$ (2,017)</u>

On January 1, 2006, we elected to convert Impac Commercial Capital Corporation "ICCC" from a qualified REIT subsidiary to a taxable REIT subsidiary. Therefore, there is no corresponding six months 2006 over six months 2005 comparison.

Net loss for the commercial operations was \$2.0 million for the first six months of 2006. Non-interest income was \$2.9 million in the first six months of 2006 due to the gain on sale of loans of \$3.1 million which was partially offset by the change in fair value of derivative instruments of \$(218) thousand. Offsetting non-interest income was non-interest expense and income taxes of \$5.1 million due to the expansion of our commercial mortgage operations. The commercial operations are reflected as a stand-alone entity for segment financial reporting purposes; however, on the consolidated financial statements inter-company loan sales and related gains are eliminated.

Liquidity and Capital Resources

We recognize the need to have funds available for our operating businesses and our customers' demands for obtaining short-term warehouse financing until the settlement or sale of mortgages with us or with other investors. It is our policy to have adequate liquidity at all times to cover normal cyclical swings in funding availability and mortgage demand and to allow us to meet abnormal and unexpected funding requirements. We plan to meet liquidity through normal operations with the goal of avoiding unplanned sales of assets or emergency borrowing of funds. Toward this goal, our asset/liability committee, or "ALCO," is responsible for monitoring our liquidity position and funding needs.

ALCO participants include senior executives of the long-term investment operations, the mortgage operations, the commercial operations, and warehouse lending operations. ALCO meets on a weekly basis to review current and projected sources and uses of funds. ALCO monitors the composition of the balance sheet for changes in the liquidity of our assets. Our primary liquidity consists of cash and cash equivalents; short-term securities available for sale, and maturing mortgages, or "liquid assets."

We believe that current cash balances, short-term investments, currently available financing facilities, capital raising capabilities and excess cash flows generated from our long-term mortgage portfolio will adequately provide for projected funding needs and limited asset growth.

Our operating businesses primarily use available funds as follows:

- acquisition and origination of mortgages by the mortgage, commercial, and long-term investment operations;
- long-term investment in mortgages by the long-term investment operations;
- provide short-term warehouse advances by the warehouse lending operations;
- pay interest on debt;

40

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- distribute common and preferred stock dividends;
 - pay operating and non-operating expenses; and
 - potential business acquisitions.

Acquisition and origination of mortgages by the mortgage, commercial, and long-term investment operations. During the second quarter of 2006, the mortgage operations acquired and originated \$2.2 billion of primarily Alt-A mortgages, none of which was retained by the long-term investment operations for long-term investment. Capital invested in mortgages is outstanding until we sell or securitize mortgages, which is one of the reasons we attempt to sell or securitize mortgages within 90 days of acquisition or origination. Initial capital invested in mortgages includes premiums paid when mortgages are acquired and originated and our capital investment, or "haircut," required upon financing, which is generally determined by the type of collateral provided. The mortgage operations acquired and originated mortgages at a weighted average price of 101.70 during the second quarter of 2006, which were financed with warehouse borrowings from the warehouse lending operations at a haircut generally between 2% to 10% of the outstanding principal balance of the mortgages. In addition, ICCO originated \$277.9 million of commercial mortgages at a weighted average price of 100.02 which were initially financed with short-term warehouse financing from the warehouse lending operations at a haircut of generally 3% of the outstanding principal balance of the mortgages.

Long-term investment in mortgages by the long-term investment operations. The long-term investment operations acquires primarily Alt-A mortgages from the mortgage operations and finances them with warehouse borrowings from the warehouse lending operations at substantially the same terms as the mortgage operations. When the long-term investment operations finances mortgages with long-term securitized mortgage borrowings, short-term warehouse financing is repaid. Then, depending on credit ratings from national credit rating agencies on our securitized mortgage borrowings, we are generally required to provide an over-collateralization, or "OC", of 0.35% to 1% of the principal balance of mortgages securing securitized mortgage borrowings as compared to a haircut of 2% to 10% of the principal balance of mortgages securing short-term warehouse financing. Our total capital investment in securitized mortgage collateral generally ranges from approximately 2% to 5% of the principal balance of mortgages securing securitized mortgage borrowings which includes premiums paid upon acquisition of mortgages from the mortgage operations, costs paid for completion of securitized mortgage borrowings, costs to acquire derivatives and OC required to achieve desired credit ratings. Commercial mortgages are financed on a long-term basis with securitized mortgage borrowings at substantially the same rates and terms as Alt-A mortgages.

Provide short-term warehouse advances by the warehouse lending operations. We utilize committed and uncommitted reverse repurchase facilities with various lenders to provide short-term warehouse financing to affiliates and non-affiliated clients of the warehouse lending operations. The warehouse lending operations provides short-term financing to the mortgage operations and non-affiliated clients from the closing of mortgages to their sale or other settlement with investors. The warehouse lending operations generally finances between 90% and 98% of the fair market value of the principal balance of mortgages, which equates to a haircut requirement of between 10% and 2%, respectively, at one-month LIBOR, plus a spread. The mortgage operations have uncommitted warehouse line agreements to obtain financing from the warehouse lending operations at one-month LIBOR plus a spread during the period that the mortgage operation accumulates mortgages until the mortgages are securitized or sold. As of June 30, 2006, the mortgage operations had \$967.4 million of warehouse advances outstanding with the warehouse lending operations. In addition, as of June 30, 2006, the warehouse lending operations had \$693.5 million of approved warehouse lines available to non-affiliated clients, of which \$292.8 million was outstanding.

Our ability to meet liquidity requirements and the financing needs of our customers is subject to the renewal of our credit and repurchase facilities or obtaining other sources of financing, if required, including additional debt or equity from time to time. Any decision our lenders or investors make to provide available financing to us in the future will depend upon a number of factors, including:

- our compliance with the terms of our existing credit arrangements;
- our financial performance;
- industry and market trends in our various businesses;
- the general availability of, and rates applicable to, financing and investments;

41

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- our lenders or investors resources and policies concerning loans and investments; and
 - the relative attractiveness of alternative investment or lending opportunities.

Distribute common and preferred stock dividends. We are required to distribute a minimum of 90% of our taxable income to our stockholders in order to maintain our REIT status, exclusive of the application of any tax loss carry forwards that may be used to offset current period taxable income. Because we pay dividends based on taxable income, dividends may be more or less than net earnings. We declared cash dividends of \$0.25 per outstanding common share for the second quarter of 2006 on estimated taxable income of \$0.27 per diluted common share and paid cash dividends of \$0.25 per outstanding common share for the first quarter of 2006. In addition, we paid cash dividends of \$3.7 million on preferred stock during the second quarter of 2006.

A portion of dividends paid to IMH's stockholders can come from dividend distributions from the mortgage operations and commercial operations, our taxable REIT subsidiaries, to IMH. During the second quarter of 2006, the mortgage operations provided a \$3.5 million dividend distribution to IMH. Because the mortgage and commercial operations may seek to retain earnings to fund the acquisition and origination of mortgages or to expand the mortgage operations, the board of directors of our taxable REIT subsidiaries, which is different from the board of directors of the registrant, may decide that the mortgage and/or commercial operations should cease making dividend distributions in the future. This could reduce the amount of taxable income that would be distributed to IMH stockholders in the form of common stock dividend payment amounts.

During the second quarter of 2006, our operating businesses are primarily funded as follows:

- reverse repurchase agreements and securitized mortgage borrowings;
- excess cash flows from our long-term mortgage portfolio;
- sale and securitization of mortgages;

And we have the flexibility to fund our business with:

- cash proceeds from the issuance of common and preferred stock; and
- cash proceeds from the issuance of trust preferred securities.

Reverse repurchase agreements and securitized mortgage borrowings. We use reverse repurchase agreements to fund substantially all warehouse financing to affiliates and non-affiliated clients and for the acquisition and origination of Alt-A and commercial mortgages. As we accumulate mortgages, we finance the acquisition of mortgages primarily through borrowings on reverse repurchase facilities with third party lenders. We primarily use uncommitted and committed facilities with major investment banks to finance substantially all warehouse financing, as needed. During the second quarter of 2006 the warehouse facilities amounted to \$5.2 billion, of which \$1.3 billion was outstanding at June 30, 2006. The warehouse facilities provide us with a higher aggregate credit limit to fund the acquisition and origination of mortgages at terms comparable to those we have received in the past. These warehouse facilities may have certain covenant tests which we continue to satisfy. From time to time, we may also receive additional uncommitted interim financing from our lenders in excess of our permanent borrowing limits to finance mortgages during the accumulation phase and prior to securitizations or whole loan sales.

From time to time, we may also utilize short-term reverse repurchase financing provided to us by underwriters who underwrite some of our securitizations. The short-term reverse repurchase financing funds mortgages that are specifically allocated to securitization transactions, which allows us to reduce overall borrowings outstanding on reverse repurchase agreements with other lenders during the period immediately prior to the settlement of the securitization. Terms and interest rates on the short-term reverse repurchase facilities are generally lower than on other reverse repurchase agreements. Short-term reverse repurchase financing are generally repaid within 30 days from the date funds are advanced.

We expect to continue to use short-term reverse repurchase facilities to fund the acquisition of mortgages. If we cannot renew or replace maturing borrowings, we may have to sell, on a whole loan basis, the mortgages securing these facilities, which, depending upon market conditions may result in substantial losses. Additionally, if for any reason the market value of

42

our mortgages securing reverse repurchase facilities decline, our lenders may require us to provide them with additional equity or collateral to secure our borrowings, which may require us to sell mortgages at substantial losses.

In order to mitigate the liquidity risk associated with reverse repurchase agreements, we attempt to sell or securitize our mortgages within 90 days from acquisition or origination. Although securitizing mortgages more frequently adds operating and securitization costs, we believe the added cost is offset as liquidity is provided more frequently with less interest rate and price volatility, as the accumulation and holding period of mortgages is shortened. When we have accumulated a sufficient amount of mortgages, we seek to issue securitized mortgage borrowings and convert short-term advances under reverse repurchase agreements to long-term securitized mortgage borrowings. The use of securitized mortgage borrowings provides the following benefits:

- allows us to use long term financing for the duration of the securitized mortgage collateral; and
- eliminates the potential for margin calls on the borrowings that are converted from reverse repurchase agreements to securitized mortgage borrowings as well as associated derivatives used to manage interest rate risks on securitized mortgage borrowings.

During the first six months of 2006, we completed \$923.0 million of securitized mortgage borrowings to provide long-term financing for \$920.1 million of primarily Alt-A and commercial mortgages. Because of the credit profile, historical loss performance and prepayment characteristics of our Alt-A and commercial mortgages, we have been able to borrow a higher percentage against the principal balance of mortgages held as securitized mortgage collateral, which means that we have to provide less initial capital upon completion of securitized mortgage borrowings. Capital investment in the securitized mortgage borrowings is established at the time securitized mortgage borrowings are issued at levels sufficient to achieve desired credit ratings on the securities from credit rating agencies.

Excess cash flows from our long-term mortgage portfolio. We receive excess cash flows on mortgages held as securitized mortgage collateral after distributions are made to investors on securitized mortgage borrowings to the extent cash or other collateral required to maintain desired credit ratings on the securitized mortgage borrowings is fulfilled and can be used to provide funding for some of the long-term investment operations' activities. Excess cash flows represent the difference between principal and interest payments on the underlying mortgages, adjusted by the following:

- servicing and master servicing fees paid;
- premiums paid to mortgage insurers;
- cash payments / receipts on derivatives;
- interest paid on securitized mortgage borrowings;
- pro-rata early principal prepayments paid on securitized mortgage borrowings;
- OC requirements;
- actual losses, net of any gains incurred upon disposition of other real estate owned or acquired in settlement of defaulted mortgages;
- unpaid interest shortfall;
- basis risk shortfall;
- bond writedowns reinstated; and
- residual cashflow.

Sale and securitization of mortgages. We sell and securitize loans in the following ways:

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- When the mortgage operations accumulate a sufficient amount of mortgages that are intended to be deposited into a securitized mortgage borrowing, it sells the mortgages to the long-term investment operations;
 - When selling mortgages on a whole loan basis, the mortgage operations will accumulate mortgages and enter into sales transactions with third party investors on a monthly basis; and
 - When the mortgage operations enter into a securitization treated as a sale for GAAP and tax purposes it accumulates mortgages and sells these loans periodically.

The mortgage operations sold \$694.4 million of mortgages to the long-term investment operations during the six months of 2006 and sold \$5.0 billion of mortgages to third party investors through whole loan sales and REMICs. The mortgage operations sold mortgage servicing rights on all mortgages sold during the first six months of 2006. The sale of mortgage servicing rights generated substantially all cash, which was used to acquire and originate additional mortgage assets.

Since we rely significantly upon sales and securitizations to generate cash proceeds to repay borrowings and to create credit availability, any disruption in our ability to complete sales and securitizations may require us to utilize other sources of financing, which, if available at all, may be on less favorable terms. In addition, delays in closing sales and securitizations of our mortgages increase our risk by exposing us to credit and interest rate risk for this extended period of time.

Common and Preferred Stock Sales Agreements. We filed with the SEC a shelf registration statement that allows us to sell up to \$1.0 billion of securities, including common stock, preferred stock, debt securities and warrants. This registration was declared effective by the SEC on September 6, 2005. By issuing new shares periodically throughout 2005 and the first half of 2006, we believe that we were able to utilize new capital more efficiently and profitably.

On September 30, 2005, the Company entered into a common stock sales agreement with Brinson Patrick Securities Corporation (Brinson Patrick) for the sale of up to 7.5 million shares of its common stock from time to time through Brinson Patrick as sales agent. No shares of common stock were sold during the three months ended June 30, 2006.

On September 30, 2005, the Company entered into a Preferred Stock sales agreement with Brinson Patrick, for the sale of up to 800,000 shares of its 9.125% Series C Cumulative Redeemable Preferred Stock (Series C Preferred Stock) from time to time through Brinson Patrick as sales agent. During the three months ended June 30, 2006, no shares of Series C Preferred Stock were sold.

For the six months ended June 30, 2006, the ratio of earnings to fixed charges and ratio of earnings to combined fixed charges and preferred stock dividends was 1.15x and 1.14x, respectively. Earnings used in computing the ratio of earnings to fixed charges consist of net earnings before income taxes plus fixed charges. Fixed charges include interest expense on debt and the portion of rental expense deemed to represent the interest factor.

Inflation/Deflation

The consolidated financial statements and corresponding notes to the consolidated financial statements have been prepared in accordance with GAAP, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased costs of our operations. Unlike industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Inflation affects our operations primarily through its effect on interest rates, since interest rates normally increase during periods of high inflation and decrease during periods of low inflation. During periods of increasing interest rates, demand for mortgages and a borrower's ability to qualify for mortgage financing in a purchase transaction may be adversely affected. During periods of decreasing interest rates and housing price appreciation, borrowers may prepay their mortgages, which in turn may adversely affect our yield and subsequently the value of our portfolio of mortgage assets.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General Overview

Although we manage credit, prepayment and liquidity risk in the normal course of business, we consider interest rate risk to be a significant market risk, which could potentially have the largest material impact on our financial condition and results of operations. Since a significant portion of our revenues and earnings are derived from net interest income, we strive

to manage our interest-earning assets and interest-bearing liabilities to generate what we believe to be an appropriate contribution from net interest income. When interest rates fluctuate, profitability can be adversely affected by changes in the fair market value of our assets and liabilities and by the interest spread earned on interest-earning assets and interest-bearing liabilities. We derive income from the differential spread between interest earned on interest-earning assets and interest paid on interest-bearing liabilities. Any change in interest rates affects income received and income paid from assets and liabilities in varying and typically in unequal amounts. Changing interest rates may compress our interest rate margins and adversely affect overall earnings.

Interest rate risk management is the responsibility of the Asset Liability Committee ("ALCO"), which is comprised of senior management and reports results of interest rate risk analysis to the IMH board of directors on at least a quarterly basis. ALCO establishes policies that monitor and coordinate sources, uses and pricing of funds. ALCO also attempts to reduce the volatility in net interest income by managing the relationship of interest rate sensitive assets to interest rate sensitive liabilities. In addition, various modeling techniques are used to value interest sensitive mortgage-backed securities, including interest-only securities. The value of investment securities available-for-sale is determined using a discounted cash flow model using prepayment rate, discount rate and credit loss assumptions. Our investment securities portfolio is available-for-sale, which requires us to perform market valuations of the securities in order to properly record the portfolio. We continually monitor interest rates of our investment securities portfolio as compared to prevalent interest rates in the market. We do not currently maintain a securities trading portfolio and are not exposed to market risk as it relates to trading activities.

Changes in Interest Rates

Interest rate risk management policies intended to limit our exposure to changes in interest rates primarily associated with cash flows on our adjustable rate securitized mortgage borrowings. Our primary objective is to limit our exposure to the variability in future cash flows attributable to the variability of one-month LIBOR, which is the underlying index of our adjustable rate securitized mortgage borrowings. We also monitor on an ongoing basis the prepayment risks that arise in fluctuating interest rate environments. Our interest rate risk management policies are formulated with the intent to offset potential adverse effects of changing interest rates on cash flows on adjustable rate securitized mortgage borrowings.

We primarily acquire for long-term investment ARMs and hybrid ARMs and, to a lesser extent, FRMs. ARMs are generally subject to periodic and lifetime interest rate caps. This means that the interest rate of each ARM is limited to upwards or downwards movements on its periodic interest rate adjustment date, generally six months, or over the life of the mortgage. Periodic caps limit the maximum interest rate change, which can occur on any interest rate change date to generally a maximum of 1% per semiannual adjustment. Also, each ARM has a maximum lifetime interest rate cap. Generally, borrowings are not subject to the same periodic or lifetime interest rate limitations. During a period of rapidly increasing or decreasing interest rates, financing costs could increase or decrease at a faster rate than the periodic interest rate adjustments on mortgages would allow, which could affect net interest income. In addition, if market rates were to exceed the maximum interest rate limits of our ARMs, borrowing costs could increase while interest rates on ARMs would remain constant. We also acquire hybrid ARMs that have initial fixed interest rate periods generally ranging from two to seven years which subsequently convert to ARMs. During a rapidly increasing or decreasing interest rate environment financing costs would increase or decrease more rapidly than would interest rates

on mortgages, which would remain fixed until their next interest rate adjustment date. In order to provide protection against potential resulting basis risk shortfall on the related liabilities, we purchase derivatives.

We measure the sensitivity of our net interest income to changes in interest rates affecting interest sensitive assets and liabilities using various simulations. These simulations take into consideration changes that may occur in investment and financing strategies, the forward yield curve, interest rate risk management strategies, mortgage prepayment speeds and the volume of mortgage acquisitions and originations. As part of various interest rate simulations, we calculate the effect of potential changes in interest rates on our interest-earning assets and interest-bearing liabilities and their affect on overall earnings. The simulations assume instantaneous and parallel shifts in interest rates and to what degree those shifts affect net interest income.

We estimate net interest income along with net cash flows from derivatives for the next twelve months using balance sheet data and the notional amount of derivatives as of April 30, 2006 and 12-month projections of the following primary drivers affecting net interest income:

- future interest rates using forward yield curves, which are considered market consensus estimates of future interest rates;
- mortgage acquisitions and originations;

45

- mortgage prepayment rate assumptions; and
- forward swap rates.

We refer to the 12-month projection of net interest income along with the 12-month projection of net cash flows from derivatives as the “base case.” For financial reporting purposes, net cash flows from derivatives are included in realized gain (loss) from derivative instruments on the consolidated financial statements. However, for purposes of interest rate risk analysis we include net cash flows from derivatives in our base case simulations as we acquire derivatives to offset the effect that changes in interest rates have on variable borrowing costs, such as securitized mortgage and warehouse borrowings. We believe that including net cash flows from derivatives in our interest rate risk analysis presents a more useful simulation of the effect of changing interest rates on net cash flows generated by our long-term mortgage portfolio.

Once the base case has been established, we “shock” the base case with instantaneous and parallel shifts in interest rates in 100 basis point increments upward and downward. Calculations are made for each of the defined instantaneous and parallel shifts in interest rates over or under the forward yield curve used to determine the base case and include any associated changes in projected mortgage prepayment rates caused by changes in interest rates. The results of each 100 basis point change in interest rates are then compared against the base case to determine the estimated dollar and percentage change to base case. The simulations consider the affect of interest rate changes on interest sensitive assets and liabilities as well as derivatives. The simulations also consider the impact that instantaneous and parallel shift in interest rates have on prepayment rates and the resulting affect of accelerating or decelerating amortization of premium and securitization costs.

In the following table, the up 100 basis point scenario as of April 30, 2006 represents our projection of the net change from base case net interest income, which is derived from assumptions as previously discussed, if market interest rates were to immediately rise by 100 basis points. This means that we increase interest rates at all data points along our projected forward yield curve by 100 basis points and recalculate our projection of net interest income over the next 12 months. In addition, based on changes in interest rates, or changes in our forward yield curve, our model adjusts mortgage prepayment rates and recalculates amortization of acquisition and securitization costs and net cash receipts or payments on derivatives as part of the calculation of net interest income. Thus, if a 100 basis point interest rate increase occurred, the projected volatility to net interest income is negatively impacted by \$535 thousand, or a decrease of less than 1% relative to projected base case net interest income.

The interest rate risk profile of our balance sheet is more sensitive to changes in interest rates related to our liabilities. We use derivatives extensively in order to manage the interest rate, or price risk, inherent in our assets, liabilities and loan commitments. Our main objective in managing interest rate risk is to moderate the impact of changes in interest rates on our earnings over time. Our interest rate risk management strategies may result in significant earnings volatility in the short term. The success of our interest rate risk management strategy is largely dependent on our ability to predict the earnings sensitivity of our loan production operations and long term investment operations in various interest rate environments. There are many market factors that impact the performance of our interest rate risk management activities including interest rate volatility, prepayment behavior, the shape of the yield curve and the spread between mortgage interest rates and Treasury or Swap rates. The success of this strategy impacts our net income. This impact, which can be either positive or negative, can be material.

The following table estimates the financial impact to base case, including net cash flow from derivatives, from various instantaneous and parallel shifts in interest rates based on both our on-balance sheet structure and off-balance sheet structure, which refers to the notional amount of derivatives that are not recorded on our balance sheet as of April 30, 2006 (dollar amounts in thousands):

46

Instantaneous and Parallel Change in Interest Rates (2)	Changes in base case as of April 30, 2006 (1)				
	Excluding net cash flow on derivatives		Net cash flow on derivatives	Including net cash flow on derivatives	
	\$	(%)	\$	\$	(%)
Up 300 basis points, or 3% (3)	(409,923)	(4,575)	351,769	(58,154)	(35)
Up 200 basis points, or 2%	(258,752)	(2,888)	234,513	(24,239)	(15)
Up 100 basis points, or 1%	(117,792)	(1,314)	117,257	(535)	—

Down 100 basis points or 1%	112,216	1,252	(117,256)	(5,040)	(3)
Down 200 basis points or 2%	228,469	2,550	(234,513)	(6,044)	(4)
Down 300 basis points or 3%	346,037	3,862	(351,769)	(5,732)	(3)

- (1) The dollar and percentage changes represent base case for the next twelve months versus the change in base case using various instantaneous and parallel interest rate change simulations, excluding the effect of amortization of loan discounts to base case.
- (2) Instantaneous and parallel interest rate changes over and under the projected forward yield curve.
- (3) This simulation was added to our analysis as it is relevant in light of the interest rate environment as of April 30, 2006 and the projected forward yield curve for 2006 and 2007.

Using information as presented above, and other analysis, the Company reviews its interest rate risk profile. Based on this review, the Company makes certain decisions on how to mitigate its interest rate risk.

The use of derivatives to manage risk associated with changes in interest rates is an integral part of our strategy. The amount of cash payments or cash receipts on derivatives is determined by (1) the notional amount of the derivative and (2) current interest rate levels in relation to the various strikes or coupons of derivatives during a particular time period. As of June 30, 2006 and December 31, 2005, we had notional balances of interest rate swaps, caps, and floors of \$17.8 billion and \$20.2 billion, respectively, with fair values of \$312.0 million and \$248.2 million, respectively, pertaining to our current and pending securitizations. By using derivatives, we attempt to minimize the effect of both upward and downward interest rate changes on our long-term mortgage portfolio. Our goal is to moderate significant changes to base case net interest income, including net cash flows from derivatives, as interest rates change. We primarily acquire swaps to essentially convert our adjustable rate securitized mortgage borrowings into fixed rate borrowings. For instance, we receive one-month LIBOR on swaps, which offsets interest expense on adjustable rate securitized mortgage borrowings, and we pay a fixed interest rate.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 (the "Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As of June 30, 2006, our CEO and CFO, with the participation of other management of the Company, evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) or 15(d)-15(e) promulgated under the Exchange Act, and based upon that evaluation, our CEO and CFO concluded that these disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Internal Control Over Financial Reporting

During the quarter ended June 30, 2006, there have been no changes to our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

The Company's Form 10-K for the year ended December 31, 2005 reported securities class actions filed against the Company and its senior officers and directors. On May 1, 2006, the U.S. District Court, Central District of California approved the consolidation of the federal securities class actions and appointed lead plaintiff and lead counsel. A consolidated complaint was filed in this action on July 24, 2006. The Company and its officers and directors intend to move to dismiss the consolidated complaint.

The Company's Form 10-K for the year ended December 31, 2005 and Form 10-Q for the period ended March 31, 2006 reported shareholder derivative actions filed against the Company and its senior officers and directors in the U.S. District Court, Central District of California and Orange County Superior Court. On April 20, 2006, the Orange County Superior Court approved the consolidation of the state shareholder derivative actions and appointed lead plaintiff and lead counsel. A consolidated amended complaint was filed in this action on May 12, 2006. The Company and its officers and directors have moved to stay the state shareholder derivative action pending resolution of the federal securities class actions and federal shareholder derivative actions. On June 7, 2006, the U.S. District Court, Central District of California approved the consolidation of the federal shareholder derivative actions and appointed lead plaintiff and lead counsel.

We believe that we have meritorious defenses to the above claims and intend to defend these claims vigorously. Nevertheless, litigation is uncertain and we may not prevail in the lawsuits and can express no opinion as to their ultimate resolution. An adverse judgment in any of these matters could have a material adverse effect on us.

Please refer to IMH's report on Form 10-K for the year ended December 31, 2005 and report on Form 10-Q for the period ended March 31, 2006 for a further description of litigation and claims.

ITEM 1A: RISK FACTORS

In addition to other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item IA Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2005 and Part II, "Item IA Risk Factors" in our Quarterly Report on Form 10-Q for the period ended March 31, 2006, which could materially affect our business, financial condition, or future results.

ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On June 1, 2006, we held our annual meeting of stockholders. Of 76,112,963 shares eligible to vote, 71,917,120, or 94.5%, votes were returned, formulating a quorum. At the annual stockholders meeting, the following matters were submitted to stockholders for vote Proposal I — Election of Directors, Proposal II - Ratification of the appointment of Ernst & Young LLP as our independent auditors for the year ending December 31, 2006.

Proposal I—Election of Directors

The results of voting on these proposals are as follows:

48

Director	For	Against	Elected
Joseph R. Tomkinson	69,974,917	1,942,203	Yes
William S. Ashmore	70,012,380	1,904,740	Yes
James Walsh	70,064,829	1,852,291	Yes
Frank P. Philipps	69,816,670	2,100,450	Yes
Stephan R. Peers	70,084,859	1,832,261	Yes
William E. Rose	70,107,021	1,810,099	Yes
Leigh J. Abrams	70,098,732	1,818,388	Yes

All directors are elected at our annual stockholders meeting.

Proposal II — Ratification of the appointment of Ernst & Young LLP as our independent auditors for the year ending December 31, 2006.

Proposal II was approved with 70,954,220 shares voted for, 692,930 voted against and 269,966 abstained from voting, thereby, ratifying the appointment of Ernst & Young LLP as our independent auditors for the year ending December 31, 2006.

ITEM 5: OTHER INFORMATION

None

ITEM 6: EXHIBITS

(a) Exhibits:

- 10.1 Amendment, dated as of May 1, 2006, to Employment Agreement between Impac Funding Corporation and William S. Ashmore.
- 10.2 Amendment, dated as of May 1, 2006, to Employment Agreement between Impac Funding Corporation and Richard J. Johnson.
- 10.3 Employment Agreement dated as of May 1, 2006, between Impac Commercial Capital Corporation and William D. Endresen.
- 10.4 Guaranty, dated May 1, 2006, granted by Impac Mortgage Holdings, Inc. in favor of William D. Endresen.
- 12.1 Statements re: computation of ratios
- 21.1 Subsidiaries of the Registrant
- 31.1 Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-K, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1* Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* This exhibit shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language in any filings.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

IMPAC MORTGAGE HOLDINGS, INC.

/s/ Gretchen D. Verdugo

by: Gretchen D. Verdugo

Executive Vice President

and Chief Financial Officer

(authorized officer of registrant and principal financial officer)

Date: August 9, 2006

AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT

This AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT (the "Amendment"), is made as of May 1, 2006, by and between Impac Funding Corporation, a California Corporation ("Employer"), and William S. Ashmore, an individual ("Employee"). Capitalized terms used herein and not defined shall have the meanings given to them in the Employment Agreement, as amended (the "Employment Agreement"), dated as of April 1, 2003, between Employer and Employee.

Intending to be legally bound hereby, the parties hereto agree to amend the Employment Agreement as follows:

1. Section 1.1 of the Employment Agreement is hereby amended and restated in its entirety as follows:

"1.1 Employer hereby employs Employee and Employee hereby accepts such employment full-time (subject to those exceptions, if any, set forth below) as President to perform the duties set forth in Exhibit A2, attached hereto and, subject to Section 2.2(i), to perform such other duties or functions as are reasonably required or may be prescribed from time to time or as otherwise agreed. Employee shall render his services by and subject to the instructions and under the direction of Employer's Chief Executive Officer to whom Employee shall directly report."

2. Exhibit A is hereby amended and replaced in its entirety with Exhibit A2 attached hereto.

IN WITNESS WHEREOF, this Amendment No. 2 to Employment Agreement is executed as of the day and year first above written.

"EMPLOYER"
IMPAC FUNDING CORPORATION,
a California corporation

By: /s/ Ron Morrison
Name: Ron Morrison
Title: Executive Vice President and General Counsel

"EMPLOYEE"
By: /s/ William S. Ashmore
William S. Ashmore

Exhibit A2

JOB DESCRIPTION AND RELATED ENTITIES

Oversee the day to day operations of the Organization in support of policies, goals and objectives established by the Chief Executive Officer and the Board of Directors of Employer. Serve on the Executive Committee and the Asset Liability Committee of Impac Mortgage Holdings, Inc. For purposes of this Exhibit A, "Organization" means Employer and any affiliates or related entities of Employer for whom Employee is requested to provide services pursuant to Employment Agreement, as amended, by and between Employer and Employee dated as of April 1, 2003 (the "Agreement"). Manage and supervise the Organizations' senior management in the following areas: credit, sales, finance, secondary marketing, asset liability, and operations and to perform such other duties and functions as are normally consistent with this position.

Employee acknowledges, understands and agrees that Employee will be requested by Employer to devote some or all of Employee's time and effort during the term of employment pursuant to the Agreement (and consistent with the above job description) to the business of Employer's affiliates or related entities pursuant to certain agreements and relationships between and among Employer and such affiliates or related entities. Such affiliates and related entities include, but are not limited to, the following: Impac Mortgage Holdings, Inc., Impac Mortgage Capital Corp., Impac Warehouse Lending Group, IMH Assets Corp., Impac Lending Group, Impac Secured Assets Corp., Impac Mortgage Acceptance Corp., Impac Commercial Capital Corporation, and Impac Foundation.

Employee further understands and acknowledges that, pursuant to the Agreement, Employee may be directed by Employer to provide services consistent with the above job descriptions to additional real estate investment trusts or other entities which Employer establishes or with which Employer affiliates or becomes related and for which there exists an agreement with Employer or any of the above entities to provide such services.

Employee understands and acknowledges that Employee's obligations under the Agreement, including Employee's duties under Section 4 thereof, and the Proprietary Rights and Inventions Agreement entered into pursuant to Section 6 thereof, shall apply and extend to Employee's knowledge of the business of Employer's affiliates or related entities and any trade secret or other confidential or proprietary information relating to same.

AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT

This AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT (the "Amendment"), is made as of May 1, 2006, by and between Impac Funding Corporation, a California Corporation ("Employer"), and Richard J. Johnson, an individual ("Employee"). Capitalized terms used herein and not defined shall have the meanings given to them in the Employment Agreement, as amended (the "Employment Agreement"), dated as of April 1, 2003, between Employer and Employee.

Intending to be legally bound hereby, the parties hereto agree to amend the Employment Agreement as follows:

1. Section 1.1 of the Employment Agreement is hereby amended and restated in its entirety as follows:

"1.1 Employer hereby employs Employee and Employee hereby accepts such employment full-time (subject to those exceptions, if any, set forth below) as Executive Vice President and Chief Operating Officer to perform the duties set forth in Exhibit A, attached hereto and, subject to Section 2.2(i), to perform such other duties or functions as are reasonably required or may be prescribed from time to time or as otherwise agreed. Employee shall render his services by and subject to the instructions and under the direction of Employer's Chief Executive Officer to whom Employee shall directly report."

2. Exhibit A is hereby amended and replaced in its entirety with Exhibit A2 attached hereto.

IN WITNESS WHEREOF, this Amendment No. 2 to Employment Agreement is executed as of the day and year first above written.

"EMPLOYER"
IMPAC FUNDING CORPORATION,
a California corporation

By: /s/ William S. Ashmore

Name: William S. Ashmore

Title: President

"EMPLOYEE"

By: /s/ Richard J. Johnson

Richard J. Johnson

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Exhibit A2

JOB DESCRIPTION AND RELATED ENTITIES

Responsible for planning, coordinating and directing in the operational and financial affairs of the Organization,. For purposes of this Exhibit A2, "Organization" means Employer and any affiliates or related entities of Employer for whom Employee is requested to provide services pursuant to the Employment Agreement, as amended by and between Employer and Employee dated as of April 1, 2003 (the "Agreement"). Provide management and the Board of Directors of Employer and all of the entities within the Organization with meaningful and timely information regarding the Organization's operations performance. Monitor compliance with applicable laws, rules, and regulations related to performance of the Organization, and implement and oversee programs designed to ensure such compliance. Serve on the Asset Liability Committee of Impac Mortgage Holdings, Inc. ("IMH") and administer and oversee its interest rate risk management of IMH's balance sheet. Recommend and implement asset/liability and tax strategies to improve financial performance. Provide appropriate financial analysis of investment, merger and acquisition alternatives. Manage the staff of exempt and non-exempt employees. Perform supervisory duties to include: hiring, corrective action, performance appraisals, salary reviews, counseling, work scheduling, training, and budgeting. Oversee and manage the Organization's information technology ("IT") department. Oversee and approve IT projects and allocation of resources and approval of all IT related capital expenditures. In addition he shall be responsible to perform those duties and functions that are normally consistent with this position.

In consultation and coordination with the Chief Executive Officer and the Board of Directors of Employer and, as the case may be, the Chief Executive Officer and the Board of Directors of other entities within the Organization, the COO's responsibilities include participating in the oversight, management and administration of the following areas for the Organization, either directly or through supervision of senior managers charged with primary responsibility for such areas: finance; personnel; organization and administration; legal compliance; development, promotion and delivery of the Organization's products and services; planning and budgeting; policy development; evaluate and report on the Organization's performance.

Employee acknowledges, understands and agrees that Employee will be requested by Employer to devote some or all of Employee's time and effort during the term of employment pursuant to the Agreement (and consistent with the above job description) to the business of Employer's affiliates or related entities pursuant to certain agreements and relationships between and among Employer and such affiliates or related entities. Such affiliates and related entities include, but are not limited to, the following: Impac Mortgage Holdings, Inc., Impac Commercial Capital Corp., Impac Warehouse Lending Group, IMH Assets Corp., Impac Lending Group, Impac Secured Assets Corp., Impac Mortgage Acceptance Corp., Impac Commercial Capital Corporation, and Impac Foundation.

Employee further understands and acknowledges that, pursuant to the Agreement, Employee may be directed by Employer to provide services consistent with the above job descriptions to additional real estate investment trusts or other entities which Employer establishes or with which Employer affiliates or becomes related and for which there exists an agreement with Employer or any of the above entities to provide such services.



EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT is made as of May 1, 2006 and is to be effective as of January 1, 2006, by and between Impac Commercial Capital Corporation ("ICCC"), a California corporation ("Employer"), and William D. Endresen, an individual ("Employee").

RECITALS

WHEREAS, Employee is knowledgeable of and skillful in the business of Employer, which includes originating and closing of Commercial and Multifamily loans (the "Business");

WHEREAS, Employer believes that Employee is an integral part of its management and currently is and will become more knowledgeable of and be in part responsible for developing the Business;

WHEREAS, Employee possesses extensive management experience and knowledge regarding the Business, including confidential information concerning service marketing plans and strategy, business plans and projections and the formulas and models pertaining thereto, customer needs and peculiarities, finances, operations, billing methods and customer lists; and

WHEREAS, Employee is willing to be employed by Employer and provide services to Employer and any affiliates or related entities of Employer (as more fully described in Exhibit A attached hereto) under the terms and conditions herein stated.

A G R E E M E N T

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter contained, and for other good and valuable consideration, it is hereby agreed by and between the parties hereto as follows:

1. Employment, Services and Duties.

1.1 Employer hereby employs Employee and Employee hereby accepts such employment full-time (subject to those exceptions, if any, set forth below) as President of Employer to perform the duties and functions set forth in Exhibit A attached hereto and to perform such other duties or functions as are reasonably required or as may be prescribed from time to time or as otherwise agreed. Employee shall render his services by and subject to the instructions and under the direction of the Employer's Board of Directors and to such persons as the Board may designate, including the President, Chief Operating Officer and CEO of Impac Mortgage Holdings, Inc., to whom Employee shall directly report.

1.2 Employee acknowledges and agrees that Employee may be required by Employer to devote a portion of his working time to perform functions for Employer's affiliates or related entities (as set forth in Exhibit A attached hereto) and that such services are to be performed pursuant to and consistent with Employee's duties and obligations under this Agreement.

1.3 Employee will at all times faithfully, industriously and to the best of his ability, experience and talents perform all of the duties required of and from him pursuant to the terms of this Agreement. Employee will devote his full business energies and abilities and all of his business time to the performance of his duties hereunder and will not, without Employer's prior written consent, render to others any service of any kind (whether or not for compensation) that would interfere with the full performance of Employee's duties hereunder, and in no event will engage in any activities that compete with the Business or that could create a reasonably foreseeable conflict of interest or the appearance of a reasonably foreseeable conflict of interest; provided that nothing contained in this Section 1.3 shall preclude Employee from engaging in or managing Employee's outside investments.

2. Term and Termination.

2.1 The term of this Agreement shall be through December 31, 2008, unless extended by the mutual written agreement of Employer and Employee.

2.2 Employee's employment shall terminate prior to the expiration of the term set forth in Section 2.1 upon the happening of any of the following events:

(a) Voluntary termination by Employee other than for Good Reason (as defined below); provided that Employee shall be required to provide Employer with at least 30 days prior written notice of such voluntary termination;

(b) Death of Employee;

(c) Employer may terminate Employee under this Agreement for "cause" if any of the following occurs (any determination of "cause" as used in this Agreement shall be made only by an affirmative majority vote of the Board of Directors (not including Employee in the deliberations or vote on the same, if a director) of Employer):

(i) Employee is convicted of (or pleads nolo contendere to) (A) a crime of dishonesty or breach of trust, including such a crime involving either the property of Employer or Employer's parent corporation, Impac Mortgage Holdings, Inc. ("IMH") (or any affiliate or related entity of Employer or IMH) or the property entrusted to Employer or IMH (or any affiliate or related entity of Employer or IMH) by its clients, including fraud, or embezzlement or other misappropriation of funds belonging to Employer or IMH (or any affiliate or related entity of Employer or IMH) or any of their respective clients, or (B) a felony leading to incarceration of more than 90 days or the payment of a penalty or fine of \$100,000 or more;

(ii) Employee materially and substantially fails to perform Employee's job duties properly assigned to Employee after being provided 30 days prior written notification by the Board of Directors of Employer setting forth those duties that are not being performed by Employee; provided that Employee shall have a reasonable time to correct any such failures to the extent that such failures

are correctable and Employer may not terminate Employee for "cause" on the basis on any such failure that is cured within a reasonable time.

2

(iii) Employee has engaged in willful misconduct or gross negligence in connection with his service to Employer or IMH (or any affiliate or related entity of Employer or IMH) that has caused or is causing material harm to Employer or IMH (or any affiliate or related entity of Employer or IMH); or

(iv) Employee's material breach of any of the terms of this Agreement or any other obligation that Employee owes to Employer or IMH (or any affiliate or related entity of Employer or IMH), including a material breach of trust or fiduciary duty or a material breach of any proprietary rights and inventions or confidentiality agreement between Employer and Employee or between IMH and Employee (or between Employee and any affiliate or related entity of Employer or IMH)(as such agreements may be adopted or amended from time to time by Employer and Employee).

(d) By mutual agreement between Employer and Employee;

(e) The date when Employee is declared legally incompetent under the laws of the State of California, or if Employee has a mental or physical condition that can reasonably be expected to prevent Employee from carrying out his essential duties and obligations under this Agreement for a period of greater than six months (any such condition an "Incapacitating Condition"), notwithstanding Employer's reasonable accommodations (to the extent required by law);

(f) Employer may terminate Employee under this Agreement at will (and without cause) upon written notice at any time. Unless otherwise provided in such notice, such termination shall be effective immediately upon providing written notice to Employee; or

(g) Employee may terminate his employment under this Agreement for Good Reason upon providing Employer at least 30 days prior written notice of such termination stating the basis on which Employee has determined that he has Good Reason to terminate his employment; provided that Employer shall have a reasonable time after receiving such notice to cure any event that would constitute Good Reason for Employee to terminate his employment (provided such event is curable) and Employee may not terminate his employment for Good Reason on the basis of any such event that is cured within a reasonable time. "Good Reason" shall mean:

(i) the assignment to Employee of duties materially inconsistent with, or a substantial reduction or alteration in, the authority, duties or responsibilities of Employee as set forth in this Agreement, without Employee's prior written consent;

(ii) the principal place of the performance of Employee's responsibilities and duties is changed to a location more than 65 miles from the location of such place as of the date of this Agreement, without Employee's prior written consent;

3

(iii) a material breach by Employer of this Agreement, including a reduction by Employer of Employee's Base Salary, without Employee's prior written consent; or

(iv) a failure by Employer to obtain from IMH or any acquirer of Employer, before any Acquisition (as defined below) takes place, an agreement to assume and perform this Agreement.

Good Reason does not include the expiration of the term of this Agreement on December 31, 2008.

2.3 Except as set forth in Section 4, in the event that Employee's employment is terminated pursuant to Section 2.2(a), 2.2(b), 2.2(c), 2.2(d) or 2.2(e) herein, neither Employer nor Employee shall have any remaining duties or obligations under this Agreement, except that Employer shall pay to Employee, or his legal representatives, on the date of termination of employment (the "Termination Date") or, with respect to any Bonus Incentive Compensation payments or reimbursement for expenses, as promptly as practical after the Termination Date, the following:

(a) Such compensation as is due pursuant to Sections 3.1 (a) and 3.1(b)(i)(ii)(iii) prorated through the Termination Date;

(b) Any expense reimbursements due and owing to Employee for reasonable and necessary business and entertainment expenses of Employer incurred by Employee prior to the Termination Date; and

(c) The dollar value of all accrued and unused paid time off as defined in Section 3.1 (c) that Employee is entitled to through the Termination Date.

2.4 Except as set forth in Section 4, in the event that Employee's employment is terminated pursuant to Section 2.2(f) or 2.2(g), neither Employer nor Employee shall have any remaining duties or obligations under this Agreement, except that Employer shall pay to Employee, or his representatives, the amounts set forth in Section 2.3 at the times set forth in Section 2.3 and the following (provided that payments for health insurance coverage shall be made to an insurance provider):

(a) An additional 18 month's worth of Base Salary as defined in Section 3.1 (a) to be paid in equal installments over 18 months after Employee signs and delivers to Employer the Waiver and Release Agreement required pursuant to Section 2.5; and

(b) Premiums for continuation of Employee's health insurance benefit; under Employer's group health insurance plan, for the 18 month period succeeding the Termination Date (with such health insurance coverage to be at a level and quality equivalent to the health insurance coverage provided by Employer to Employee

4

immediately prior to the Termination Date, "Equivalent Coverage"). Employer agrees to transmit following the Termination Date a request (and to join in such request) from Employee to Employer's then group health insurance carrier seeking approval to maintain Employee's coverage for such period under Employer's group plan as though Employee were still employed and without reference to COBRA; provided that i) Employer makes no representation concerning any future health insurance carrier's willingness to consent to such additional coverage; ii) Employer undertakes no obligation to secure such consent. In the event that such consent is not forthcoming, then Employee's continuation coverage shall be subject to COBRA. Employer shall pay such premiums only so long as (during said 18 month period) Employee remains eligible for such Equivalent Coverage;

(c) For a period of 18 months after the Termination Date occurs, Employee shall be paid in equal installments an amount equal to the average Bonus Incentive Compensation under Sections 3.1(b)(i)(ii)(iii)(iv) of this Agreement or similar Bonus Incentive Compensation under prior Employment Agreements that Employee received during the 18 month period that preceded the Termination Date.

(d) The payments set forth in Sections 2.4(a), (b) and (c) above are referred to herein collectively as the "Severance Payments" and each as a "Severance Payment."

2.5 As a condition precedent of Employee or his estate receiving any Severance Payment from Employer, whether in a lump sum payment or a string of payments or in the form of payment of benefits, Employee or his estate shall, in consideration for payment of such amount or benefit, sign and deliver to Employer (against the execution and delivery of the same by the other parties thereto) the form of Waiver and Release Agreement attached hereto as Exhibit B. Such Waiver and Release Agreement will not be construed to include any release of any indemnification rights Employee may have against Employer pursuant to Employer's Articles of Incorporation or bylaws, any indemnification agreement or California Labor Code Section 2800.

2.6 This Agreement shall not be terminated by Employer merging with or otherwise being acquired by another entity, whether or not Employer is the surviving entity, or by Employer transferring of all or substantially all of its assets (any such event, an "Acquisition").

2.7 In the event of any Acquisition, the surviving entity or transferee, as the case may be, shall be bound by and shall have the benefits of this Agreement, and Employer shall not enter into any Acquisition unless the surviving entity or transferee, as the case may be, agrees to be bound by the provisions of this Agreement.

5

3. Compensation.

3.1 As the total consideration for Employee's services rendered hereunder, Employee shall be entitled to the following during the period that Employee is employed hereunder:

(a) A base salary of \$250,000 per year ("Base Salary"), payable in equal installments bi-weekly on those days when Employer normally pays its employees. Base Salary will be subject to an annual cost of living adjustment based upon the Consumer Price Index ("CPI") on each annual anniversary date from the date of this Agreement;

(b) Total annual Bonus Incentive Compensation in an annual amount up to \$900,000 to be allocated as follows: (i) up to \$250,000 based upon quarterly Portfolio Credit Quality goals; as more fully defined in Section 3.1(b)(i); (ii) up to \$250,000 based upon quarterly Individual Management Objectives, as more fully defined in Section 3.1(b)(ii); (iii) up to \$300,000 based upon Quarterly Production Goals, as more fully defined in Section 3.1(b)(iii); and (iv) up to \$100,000 as an Annual Production Incentive, as more fully defined in Section 3.1(b)(iv). The Bonus Incentive Compensation shall be determined quarterly by Employer and shall be paid within Thirty (30) days of each quarter end for which the bonus has been earned, with the exception of the Annual Production Incentive which will be paid, if earned, within Thirty (30) days of year end.

(i) **Portfolio Credit Quality Bonus.** Up to \$250,000 of the Bonus Incentive Compensation shall be based upon Portfolio Credit Quality which will be mutually agreed upon quarterly by Employee and Employer's Board of Directors or their designees in conjunction with the annual business plan of ICCC. The Portfolio Credit Quality bonus shall be calculated each quarter by multiplying (i) \$62,500 (the maximum attainable quarterly Portfolio Credit Quality Bonus x (ii) the Bonus Factor based on percentage completion of quarterly goals as follows:

<u>% Completion of Quarterly Goals</u>	<u>Bonus Factor</u>
Less than 50%	0%
50 to 75%	50%
75.01% to 99.99%	75%
100% or more	100%

(ii) **Individual Management Objectives Bonus.** Up to \$250,000 of the Bonus Incentive Compensation shall be based upon quarterly Individual Management Objectives which will be mutually agreed upon quarterly by Employee and Employer's Board of Directors or their designees in conjunction with the annual business plan of ICCC. The Individual Management Objectives Bonus shall be calculated each quarter by multiplying (i) \$62,500 (the maximum attainable quarterly Individual Management Objectives Bonus x (ii) the Bonus Factor based on percentage completion of quarterly goals as follows:

<u>% Completion of Quarterly Goals</u>	<u>Bonus Factor</u>
Less than 50%	0%
50 to 75%	50%
75.01% to 99.99%	75%
100% or more	100%

(iii) **Quarterly Production Goals Bonus.** Up to \$300,000 of the Bonus Incentive Compensation shall be based upon Quarterly Production Goals which will be mutually agreed upon by Employee and Employer's Board of Directors or their designees in conjunction with the annual business plan of ICCC. The Quarterly Production Goals Bonus shall be calculated each quarter by multiplying (i) \$75,000 (the maximum attainable Quarterly Production Goals Bonus x (ii) the Bonus Factor based on percentage completion of quarterly goals as follows:

<u>% Completion of Quarterly Goals</u>	<u>Bonus Factor</u>
Less than 75%	0%
75 to 79.99%	50%
80% to 89.99%	60%
90% to 99.99%	80%
100% or more	100%

(iv) **Annual Production Incentive Bonus.** Up to \$100,000 of the Bonus Incentive Compensation shall be based upon an Annual Production Incentive which will be mutually agreed upon by Employee and Employer's Board of Directors or their designees in conjunction with the annual business plan of ICCC. The Annual Production Incentive bonus shall be calculated yearly by multiplying (i) \$100,000 (the maximum attainable Annual Production Incentive Bonus x (ii) the Bonus Factor based on percentage completion of annual production goals as follows:

<u>% Completion of Annual Production Goals</u>	<u>Bonus Factor</u>
Less than 100%	0%
100% or more	100%

(c) Employee shall accrue paid time off during the period he is employed hereunder at the rate of four weeks per calendar year, subject to any vacation benefit accrual cap established by Employer (i.e., once the cap has been reached, further accrual shall cease until Employee uses some or all of his accrued time to fall below the accrual cap). The timing of Employee's vacation shall be governed by Employer's usual policies applicable to all employees;

(d) Employee is entitled to participate in any policies or plans regarding benefits of employment, including pension, profit sharing, group health, disability insurance and other employee welfare benefit plans now existing or hereafter established to the extent that Employee is eligible under the terms of such plans. Despite the foregoing, Employee is entitled to participate in any such plan or program only if the executive officers of Employer generally are eligible to participate in such plan or program. Employer may, in its sole discretion and from time to time, establish additional senior management benefit programs as it deems them appropriate. Employee understands that any such plans may be modified or eliminated in Employer's sole discretion in accordance with applicable law; and

(e) Such other benefits as the Board of Directors of Employer, in its sole discretion, may from time to time provide.

3.2 During the period that Employee is employed hereunder, Employer shall reimburse Employee for reasonable and necessary business and entertainment expenses incurred by Employee on behalf of Employer in connection with the performance of Employee's duties hereunder.

3.3 There shall be no other automatic adjustments to any of the compensation paid to Employee under this Agreement other than as described in Section 3.1 (a).

3.4 Employer shall have the right to deduct from the compensation due to Employee hereunder any and all sums required for social security and withholding taxes and for any other federal, state, or local tax or charge which may be in effect or hereafter enacted or required as a charge on the compensation of Employee.

3.5 During the period that Employee is employed hereunder, Employer shall pay to Employee an automobile allowance in the annualized amount of \$6,000 to be paid in bi-weekly increments (prorated for any partial month during the employment period).

3.6 Employer shall maintain Directors and Officers insurance, and such coverage shall be substantially similar to coverage provided by Employer's affiliates and related entities.

4. Non-Competition.

4.1 At all times during Employee's employment hereunder, and, if Employee's employment is terminated pursuant to Section 2.2(f) or 2.2(g), during the 18 month period of time after such termination (the "Post-Termination Payment Period") and in consideration for any and all payments and benefits provided to Employee pursuant to this Agreement, during the Post-Termination Payment Period, Employee shall not, directly or indirectly, engage or participate in, prepare or set up, assist or have any interest in any person, partnership, corporation, limited liability company, firm, association, or other business organization, entity or enterprise (whether as an employee, officer, director, member, agent, security holder, creditor, consultant or otherwise) that engages in any activity in those geographic areas where Employer conducts the Business, which activity is the same as, similar to, or competitive with any activity engaged in by Employer (wholesale or retail lending operation for commercial or multifamily loans of \$250,000 up to \$5,000,000 or such other business as Employer may engage in). Notwithstanding the foregoing, Employee may elect at any point during the Post-Termination Payment Period to forego any future remaining payments or benefits payable under Section 2.4, in which case the limitations set forth in this Section 4.1 shall terminate at the time of such election.

4.2 Nothing contained in Section 4.1 shall be deemed to preclude Employee from purchasing or owning, directly or beneficially, as a passive investment, less than five percent of any class of publicly traded securities of any entity so long as Employee does not actively participate in or control, directly or indirectly, any investment or other decisions with respect to such entity.

5. No Compensation from Related Entities.

Without prior written approval from Employer's Board of Directors, Employee shall not directly or indirectly receive compensation from any company with whom Employer or any of its affiliates (as "affiliate" is defined in Rule 405 promulgated under the Securities Act of 1933) has any financial, business or affiliated relationship.

6. Confidentiality; Non-Solicitation and Proprietary Rights.

Concurrently with signing this Agreement, Employee and Employer will sign a Proprietary Rights and Inventions Agreement in the form attached hereto as EXHIBIT C (the "Proprietary Rights and Inventions Agreement").

7. Copies of Agreement.

Employee authorizes Employer to send a copy of the Proprietary Rights and Inventions Agreement to any and all future employers which Employee may have, and to any and all persons, firms, and corporations, with whom Employee may become affiliated in a business or commercial enterprise, and to inform any and all such employers, persons, firms or corporations that Employer intends to exercise its legal rights should Employee breach the terms of the Proprietary Rights and Inventions Agreement or should another party induce a breach of that agreement on Employee's part.

8. Severable Provisions.

The provisions of this Agreement are severable and if any one or more provisions is determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions, and any partially unenforceable provisions to the extent enforceable, shall nevertheless be binding and enforceable.

9. Arbitration.

To the fullest extent allowed by law, any controversy, claim or dispute between Employee and Employer (or any of its stockholders, directors, officers, employees, affiliates, agents, successors or assigns) relating to or arising out of Employee's employment or the cessation of that employment will be submitted to final and binding arbitration in Orange County, California for determination in accordance with the American Arbitration Association's ("AAA") National Rules for the Resolution of Employment Disputes, as the exclusive remedy for such controversy, claim or dispute. In any such arbitration, the parties may conduct discovery to the same extent as would be permitted in a court of law. The arbitrator shall issue a written decision, and shall have full authority to award all remedies which would be available in court. The arbitrator shall be required to determine all issues in accordance with existing case law and the statutory laws of the State of California. Employer shall pay the arbitrator's fees and any AAA administrative expenses. In the event Employee files a claim to collect unpaid payments or benefits payable under Section 2.4, the prevailing party shall be awarded reasonable attorneys fees and costs. Any judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. Possible disputes covered by the above include unpaid wages, breach of contract, torts, violation of public policy, discrimination, harassment, or any other employment-related claims under laws including Title VII of the

With a copy to:

Richard K Zepfel, Esq.

Payne & Fears, LLP
4 Park Plaza Ste 1100
Irvine, CA 92614
Telephone: (949) 851-1100
Facsimile: (949) 851-1212

12

14. Amendments And Waivers.

This Agreement may not be amended, modified, superseded, canceled, or any terms waived, except by written instrument signed by both parties, or in the case of waiver, by the party to be charged.

15. Successor and Assigns.

This Agreement is not assignable by Employee, nor by Employer except to an affiliated or successor entity. This Agreement is binding on the parties' heirs, executors, administrators, other legal representatives, successors, and, to the extent assignable, their assigns.

16. Representations.

The person executing this Agreement on behalf of Employer hereby represents and warrants on behalf of himself and Employer that he is authorized to represent and bind Employer. Employee specifically represents and warrants to Employer that he is not now under any contractual or quasi-contractual obligations that is inconsistent or in conflict with this Agreement or that would prevent, limit or impair Employee's performance of his obligations under this Agreement, (b) he has had the opportunity to be represented by legal counsel of his choosing in preparing, negotiating, executing and delivering this Agreement; and (c) fully understands the terms and provisions of this Agreement.

17. Counterparts; Facsimile Signatures.

This Agreement may be executed in any number of counterparts, each of which shall be deemed an original for all purposes. This Agreement may be executed by a party's signature transmitted by facsimile ("fax"), and copies of this Agreement executed and delivered by means of faxed signatures shall have the same force and effect as copies hereof executed and delivered with original signatures. All parties hereto may rely upon faxed signatures as if such signatures were originals. Any party executing and delivering this Agreement by fax shall promptly thereafter deliver a counterpart signature page of this Agreement containing said party's original signature. All parties hereto agree that a faxed signature page may be introduced into evidence in any proceeding arising out of or related to this Agreement as if it were an original signature page.

18. Rules of Construction.

This Agreement has been negotiated by the parties and is to be interpreted according to its fair meaning as if the parties had prepared it together and not strictly for or against any party. References in this Agreement to "Sections" refer to Sections of this Agreement, unless the context expressly indicates otherwise. References to "provisions" of this Agreement refer to the terms, conditions, restrictions and promises contained in this Agreement. References in this Agreement to laws and regulations refer to such laws and regulations as in effect on this date and to the corresponding provisions, if any, of any successor law or regulation. At each place in this Agreement where the context so requires, the masculine, feminine or neuter gender includes the others and the singular or plural number includes the other. Forms of the verb "including" mean "including without limitation" unless the context expressly indicates otherwise. "Or" is inclusive and includes "and" unless the context expressly indicates otherwise. The introductory headings at the beginning of Sections of this Agreement are solely for the convenience of the parties and do not affect any provision of this Agreement.

13

IN WITNESS WHEREOF, this Agreement is executed as of the day and year first above written.

"EMPLOYER"

IMPAC COMMERCIAL CAPITAL
CORPORATION, a California corporation

By: /s/ Richard J. Johnson

Name: Richard J. Johnson

Title: EVP, CFO

"EMPLOYEE"

EXHIBIT A

JOB DESCRIPTION AND RELATED ENTITIES

President, Impac Commercial Capital Corporation

Oversee the day to day operations of the Organization in support of policies, goals and objectives established by the Board of Directors of Employer, and the President, COO and CEO of Impac Mortgage Holdings, Inc. For purposes of this Exhibit A, "Organization" means Employer and any affiliates or related entities of Employer for whom Employee is requested to provide services pursuant to the Employment Agreement by and between Employer and Employee dated as of January 31, 2006 (the "Agreement").

Provide vision for the Organization and assume responsibility for its development, growth and success. Participate in the oversight, management and administration of Employer, either directly or through supervision of senior managers.

Manage and supervise senior management and staff members that report to the President.

Major Responsibilities include:

- Regularly report to the President, COO and CEO of Impac Mortgage Holdings, Inc. and the Employer's Board of Directors on the status of Employer in achieving it's business plan and goals;
- Responsible for reviewing Underwriting Guidelines, Policy and Procedures and Quality Control Guidelines;
- Responsible for developing and maintaining relationships with approved broker/correspondents;
- Assuring the profitable operation through production, pricing and meeting securitization requirements;
- Decision making and providing direction as required; and
- Member of Employer's Executive Committee.

Specific Tasks include:

- Provide monthly reports to the President, CFO and CEO of Impac Mortgage Holdings, Inc. and to the Board of Directors of Employer;
- Provide final approval of all Employer's loan requests;
- Direct regular Management meetings;
- Coordinate and communicate corporate objectives;

A-1

- Oversee Quality Control Department; and
- Approve new loan products and pricing strategies.

Employee acknowledges, understands and agrees that Employee will be requested by Employer to devote some or all of Employee's time and effort during the term of employment pursuant to the Agreement (and consistent with the above job descriptions) to the businesses of Employer's affiliates or related entities pursuant to certain agreements between and among Employer and such affiliates or related entities. Such affiliates and related entities include, but are not limited to, the following: Impac Mortgage Holdings, Inc., Impac Funding Corporation., Impac Warehouse Lending Group, IMH Assets Corp., Novelle Financial Services, Inc., Impac Lending Group, Impac Secured Assets Corp., Impac Mortgage Acceptance Corp., and Impac Foundation.

Employee further understands and acknowledges that, pursuant to the Agreement, Employee may be directed by Employer to provide services consistent with the above job descriptions to additional real estate investment trusts or other entities which Employer establishes or with which Employer affiliates or becomes related and for which there exists an agreement with Employer or any of the above entities to provide such services.

Employee understands and acknowledges that Employee's obligations under the Agreement, including Employee's duties under Section 4 thereof and the Proprietary Rights and Inventions Agreement entered into pursuant to Section 6 thereof, shall apply and extend to Employee's knowledge of the business of Employer's affiliates or related entities and any trade secret or other confidential or proprietary information relating to same.

A-2

EXHIBIT B

WAIVER AND RELEASE AGREEMENT

For full and valuable consideration, including, but not limited to, severance payments made and to be made by Impac Commercial Capital Corporation and any affiliate or related entity of Impac Commercial Capital Corporation (collectively, "Employer") to William D. Endresen ("Employee") pursuant to the Employment Agreement between Employer and Employee dated as of January 1, 2006 (the "Employment Agreement"), Employee, on the one part, and Employer and Guarantor on the other part, hereby enter into this Waiver and Release Agreement ("Waiver"), and each agrees to waive and release the other and, as the case may be, the other's stockholders, directors, officers, employees, affiliates, agents, successors and assigns, if any, from all known and unknown claims, agreements or complaints related to or arising under Employee's employment with Employer, including, but not limited to, any claim arising out of Employee's termination, any express or implied agreement between Employee and Employer (other than each party's respective rights and obligations under Sections 2.3, 2.4 and 4.1 of the Employment Agreement, and the Proprietary Rights and Inventions Agreement), and any other federal or state constitutional provisions, statutes or laws relating to an employee's relationship with his employer, including, but not limited to, Title VII of the Civil Rights Act of 1964, the Employee Retirement Income Security Act, the Age Discrimination in Employment Act, the Americans With Disabilities Act, the California Fair Employment and Housing Act, and the California Labor Code.

This Waiver shall not include a waiver of any of the following: (i) any right to defense and/or indemnification that Employee may have under California Labor Code section 2802, or under any defense and indemnification policy or agreement; (ii) any claim for breach of any pension, 401k or stock option plan of Employer; or (iii) any claim that Employee may have against any officer, director, employee, or agent of Employer or Guarantor for defamation or intentional interference with prospective employment or business advantage.

This Waiver includes a waiver of any rights the parties may have under Section 1542 of the California Civil Code, which states:

"A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

Employee's Waiver is conditioned upon Employer and Guarantor's performance of all of their severance obligations pursuant to Sections 2.3 and 2.4 of the Employment Agreement. In the event that Employer materially breaches its severance obligations under the Employment Agreement, then Employee shall be entitled to pursue any claims as though this Waiver did not exist, and the statute of limitations for any such claims shall be deemed to have been tolled during the period from the date of Employee's termination through the date Employer breached it obligations.

Employer and Guarantor's Waiver is conditioned upon Employee's performance of all of his obligations pursuant to Section 4.1 of the Employment Agreement. In the event that

B-1

Employee materially breaches his noncompete obligations under the Employment Agreement, then Employer shall be entitled to pursue any claims as though this Waiver did not exist, and the statute of limitations for any such claims shall be deemed to have been tolled during the period from the date of Employee's termination through the date Employee breached his obligations. The parties to this Waiver each acknowledge that each may hereafter discover facts different from or in addition to those now known or believed to be true with respect to the claims, suits, rights, actions, complaints, agreements, contracts, causes of action, and liabilities of any nature whatsoever that are the subject of the above release, and the parties expressly agree that this Waiver shall be and remain effective in all respects regardless of such additional or different facts.

Employee is advised as follows: (i) Employee should consult an attorney regarding this Waiver before executing it; (ii) Employee has 21 days in which to consider this Waiver and whether Employee will enter into it; (iii) this Waiver does not waive rights or claims that may arise after it is executed; and (iv) at anytime within seven days after executing this Waiver, Employee may revoke this Waiver. This Waiver shall not become effective or enforceable until the seven day revocation period set forth herein has passed.

Capitalized terms not otherwise defined herein shall have the meanings set forth in the Employment Agreement.

Dated: _____

WILLIAM D. ENDRESEN

IMPAC COMMERCIAL CAPITAL
CORPORATION

By: _____
Print Name: Richard J. Johnson
Title: EVP, CFO _____

B-2

EXHIBIT C

PROPRIETARY RIGHTS AND INVENTIONS AGREEMENT

In consideration of my employment by Impac Commercial Capital Corporation, a California corporation (the "Company"), and the compensation I receive from the Company, I agree to certain restrictions placed by the Company on my use and development of information and technology, as more fully set out below.

1. **Proprietary Information.** I understand that the Company possesses and will possess Proprietary Information which is important to its business. For purposes of this Agreement, "Proprietary Information" is information that was or will be developed, created, or discovered by or on behalf of the Company or any of its affiliates or related entities, or which became or will become known by, or was or is conveyed to the Company, which has commercial value in the Company's business or the business of any of the Company's affiliates or related entities, unless (i) the information is or becomes publicly known through lawful means; (ii) the information was rightfully in my possession or part of my general knowledge prior to my employment by the Company as specifically identified and disclosed by me in Exhibit A attached hereto; or (iii) the information is disclosed to me without confidential or proprietary restriction by a third party who rightfully possesses the information (without confidential or proprietary restriction) and who did not learn of it directly from the Company or any of its affiliates or related entities.

Proprietary Information includes information (whether conveyed orally or in writing) relating to (i) client/customer lists, vendor lists or other lists or compilations containing client, customer or vendor information; (ii) information about investment techniques or strategies, investment research or analysis, business techniques or strategies, processes, costs, profits, markets, marketing plans, forecasts, sales or commissions; (iii) plans for new investment techniques and strategies; (iv) the compensation, performance and terms of employment of other employees; (v) all other information that has been or will be given to me in confidence by the Company (or any affiliate or related entity of the Company); (vi) software in various stages of development, and any designs, drawings, schematics, specifications, techniques, models, data, source code, algorithms, object code, documentation, diagrams, flow charts, research development, processes and procedures relating to any software; (vii) any documents, books, papers, drawings, schematics, models, sketches, computer programs, databases or other data, including electronic data recorded or retrieved by any means, that contain any Proprietary Information; and (viii) any information described above which the Company or any of its affiliates or related entities obtains from another party and which the Company or any of its affiliates or related entities treats as proprietary or designates as Proprietary Information.

2. **Company Materials.** I understand that the Company and its affiliates and related entities possess or will possess "Company Materials" which are important to their respective businesses. For purposes of this Agreement, "Company Materials" are documents or other media or tangible items that contain or embody Proprietary Information or any other information concerning the business, operations or plans of the Company or any of its affiliates or related entities, whether such documents have been prepared by me or by others. "Company Materials" include charts, graphs, notebooks, customer lists, computer software, media or printouts, sound recordings and other printed, typewritten or handwritten documents, as well as financial models and the like.

C-1

3. **Intellectual Property.**

3.1 All Proprietary Information and all right, title and interest in and to any patents, patent rights, copyrights, trademark rights, mask work rights, trade secret rights, and all other intellectual and industrial property and proprietary rights that currently exist or may exist in the future anywhere in the world (collectively "Rights") in connection therewith shall be the sole property of the Company or its affiliates or related entities, as the case may be. I hereby assign to the Company any Rights I may have or acquire in such Proprietary Information. At all times, both during my employment with the Company and after its termination, I will keep in confidence and trust and will not use or disclose any Proprietary Information or anything relating to it without the prior written consent of an officer of the Company except as may be necessary and appropriate in the ordinary course of performing my duties to the Company. The disclosure restrictions of this Agreement shall not apply to any information that I can document is generally known to the public through no fault of mine. Nothing contained herein will prohibit me from disclosing to anyone the amount my wages.

3.2 All Company Materials shall be the sole property of the Company. I agree that during my employment with the Company, I will not remove any Company Materials from the business premises of the Company or deliver any Company Materials to any person or entity outside the Company, except as I am required to do in connection with performing the duties of my employment. I further agree that, immediately upon the termination of my employment by me or by the Company for any reason, or for no reason, or during my employment if so requested by the Company, I will return all Company Materials, apparatus, equipment and other physical property, and any reproduction of such property, excepting only (i) my personal copies of records relating to my compensation and (ii) my copy of this Agreement.

3.3 I agree that all "Inventions" (which term includes patentable or nonpatentable inventions, original works of authorship, derivative works, trade secrets, trademarks, copyrights, service marks, discoveries, patents, technology, algorithms, computer software, application programming interfaces, protocols, formulas, compositions, ideas, designs, processes, techniques, know-how, data and all improvements, rights and claims related to the foregoing), which I make, conceive, reduce to practice or develop (in whole or in part, either alone or jointly with others) during my employment, shall be the sole property of the Company to the maximum extent permitted by Section 2870 of the California Labor Code. I hereby assign, without further consideration, all such Inventions to the Company (free and clear of all liens and encumbrances), and the Company shall be the sole owner of all Rights in connection therewith. No assignment in this Agreement shall extend to Inventions, the assignment of which is prohibited by Labor Code Section 2870, which states:

Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

C-2

1. Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer.
2. Result from any work performed by the employee for the employer.

I acknowledge that all original works of authorship which are made by me (in whole or in part, either alone or jointly with others) within the scope of my employment and which are protectable by copyright are "works made for hire," as defined in the United States Copyright Act (17 USCA, Section 101). I will not disclose Inventions covered by this Section 3.3 to any person outside the Company, unless I am requested to do so by management personnel of the Company.

3.4 I agree to disclose promptly to the Company all Inventions and relevant records, which records will remain the sole property of the Company. I further agree that all information and records pertaining to any idea, process, trademark, service mark, invention, technology, computer program, original work or authorship, design, formula, discovery, patent, or copyright that I do not believe to be an Invention, but is conceived, developed, or reduced to practice by me (in whole or in part, either alone or jointly with others) during my employment, shall be promptly disclosed to the Company (such disclosure to be received in confidence). I will also disclose to the Company all Inventions conceived, reduced to practice, used, sold, exploited or developed by me (in whole or in part, either alone or jointly with others) within one (1) year of the termination of my employment with the Company ("Presumed Inventions"); such disclosures shall be received by the Company in confidence, to the extent they are not assigned to the Company in Section 3.3, and do not extend such assignment. Because of the difficulty of establishing when any Presumed Invention is first conceived or developed by me, or whether it results from access to Proprietary Information or the Company's equipment, facilities, and data, I agree that all Presumed Inventions and all Rights associated therewith shall be presumed to be Inventions subject to assignment under Section 3.3. I can rebut this presumption if I prove that a Presumed Invention is not an Invention subject to assignment under Section 3.3.

3.5 I agree to perform, during and after my employment, all acts deemed necessary or desirable by the Company to permit and assist it, at the Company's expense, in evidencing, perfecting, obtaining, maintaining, defending and enforcing Rights or my assignment with respect to such Inventions in any and all countries. Should the Company be unable to secure my signature on any document necessary to apply for, prosecute, obtain, enforce or defend any Rights relating to any assigned Invention, whether due to my mental or physical incapacity or any other cause, I hereby irrevocably designate and appoint the Company and its duly authorized officers and agents, as my agents and attorneys-in-fact, with full power of substitution, to act for and in my behalf and instead of me, to execute and file any documents and to do all other lawfully permitted acts to further the above purposes with the same legal force and effect as if executed by me.

3.6 Any assignment of copyright hereunder (and any ownership of a copyright as a work made for hire) includes all rights of paternity, integrity, disclosure and withdrawal and any other rights that may be known as or referred to as "moral rights" (collectively "Moral Rights"). To the extent such Moral Rights cannot be assigned under applicable law and to the

C-3

extent the following is allowed by the laws in the various countries where Moral Rights exist, I hereby waive such Moral Rights and consent to any action of the Company that would violate such Moral Rights in the absence of such waiver and consent. I will confirm any such waivers and consents from time to time as requested by the Company.

3.7 Attached hereto as Exhibit A is a complete list of all existing Inventions to which I claim personal ownership of as of the date of this Agreement and that I desire to specifically clarify are not subject to this Agreement, and I acknowledge and agree that such list is complete. If no such list is attached to this Agreement, I represent that I have no such Inventions at the time of signing this Agreement.

3.8 I understand that nothing in this Agreement is intended to expand the scope of protection provided me by Sections 2870 through 2872 of the California Labor Code.

4. Prior Actions and Knowledge. I represent and warrant that from the time of my first contact or communication with the Company, I have held in strict confidence all Proprietary Information and have not (i) disclosed any Proprietary Information or delivered any Company Materials to anyone outside of the Company or any affiliate or related entity of the Company, or (ii) used, copied, published, or summarized any Proprietary Information or removed any Company Materials from the business premises of the Company, except to the extent necessary to carry out my responsibilities as an employee of the Company.

5. Non-Solicitation of Employees. I agree that for a period of eighteen months following the termination of my employment with the Company, I will not, on behalf of myself or any other person or entity, solicit the services of any person who was employed by the Company or any affiliate or related entity of the Company on the date of my termination of employment or at any time during the six month period prior to the termination of my employment.

6. No Conflict with Obligations to Third Parties. I represent that my performance of all the terms of this Agreement will not breach any agreement to keep in confidence proprietary or confidential information acquired by me in confidence or in trust prior to my employment with the Company. I have not entered into, and I agree I will not enter into, any agreement either written or oral in conflict herewith or in conflict with my employment with the Company.

7. Remedies. I recognize that nothing in this Agreement is intended to limit any remedy of the Company under the California Uniform Trade Secrets Act. I recognize that my violation of this Agreement could cause the Company irreparable harm, the amount of which may be extremely difficult to estimate, making any remedy at law or in damages inadequate. Therefore, I agree that the Company shall have the right to apply to any court of competent jurisdiction for an order restraining any breach or threatened breach of this Agreement and for any other relief the Company deems appropriate. This right shall be in addition to any other remedy available to the Company.

8. Survival. I agree that my obligations under Sections 3.1 through 3.6, 5 and 6 shall continue in effect after termination of my employment, regardless of the reason or reasons for termination, and whether such termination is voluntary or involuntary on my part, and that the Company is entitled to communicate my obligations under this Agreement to any future employer or potential employer of mine.

9. Controlling Law. This Agreement is and shall be governed and construed in accordance with the laws of the State of California, regardless of any laws on choice of law or conflicts of law of any jurisdiction.

10. Severable Provisions. The provisions of this Agreement are severable and if any one or more provisions is determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions, and any partially unenforceable provisions to the extent enforceable, shall nevertheless be binding and enforceable.

11. Successors and Assigns. This Agreement shall be effective as of the date I execute this Agreement and shall be binding upon me, my heirs, executors, assigns, and administrators and shall inure to the benefit of the Company, its subsidiaries, successors and assigns.

12. Counterparts; Facsimile Signatures. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original for all purposes. This Agreement may be executed by a party's signature transmitted by facsimile ("fax"), and copies of this Agreement executed and delivered by means of faxed signatures shall have the same force and effect as copies hereof executed and delivered with original signatures. All parties hereto may rely upon faxed signatures as if such signatures were originals. Any party executing and delivering this Agreement by fax shall promptly thereafter deliver a counterpart signature page of this Agreement containing said party's original signature. All parties hereto agree that a faxed signature page may be introduced into evidence in any proceeding arising out of or related to this Agreement as if it were an original signature page.

13. Rules of Construction. This Agreement has been negotiated by the parties and is to be interpreted according to its fair meaning as if the parties had prepared it together and not strictly for or against any party. References in this Agreement to "Sections" refer to Sections of this Agreement, unless the context expressly indicates otherwise. References to "provisions" of this Agreement refer to the terms, conditions, restrictions and promises contained in this Agreement. References in this Agreement to laws and regulations refer to such laws and regulations as in effect on this date and to the corresponding provisions, if any, of any successor law or regulation. At each place in this Agreement where the context so requires, the masculine, feminine or neuter gender includes the others and the singular or plural number includes the other. Forms of the verb "including" mean "including without limitation" unless the context expressly indicates otherwise. "Or" is inclusive and includes "and" unless the context expressly indicates otherwise. The introductory headings at the beginning of Sections of this Agreement are solely for the convenience of the parties and do not affect any provision of this Agreement.

14. Amendments and Waivers. This Agreement may not be amended, modified, superseded, canceled, or any terms waived, except by written instrument signed by both parties, or in the case of waiver, by the party to be charged.

I HAVE READ THIS AGREEMENT CAREFULLY AND I UNDERSTAND AND ACCEPT THE OBLIGATIONS WHICH IT IMPOSES UPON ME WITHOUT RESERVATION. NO PROMISES OR REPRESENTATIONS HAVE BEEN MADE TO ME TO INDUCE ME TO SIGN THIS AGREEMENT OTHER THAN THE PROMISES AND REPRESENTATIONS EXPRESSLY STATED IN THIS AGREEMENT AND IN THE EMPLOYMENT AGREEMENT ENTERED INTO BETWEEN ME AND THE COMPANY CONCURRENTLY HEREWITH. I HAVE COMPLETELY NOTED ON EXHIBIT A TO THIS AGREEMENT ANY PROPRIETARY INFORMATION AND INVENTIONS THAT I DESIRE TO EXCLUDE FROM THIS AGREEMENT.

Dated as of: January 1, 2006

WILLIAM D. ENDRESEN

Accepted and Agreed to:

IMPAC COMMERCIAL CAPITAL
CORPORATION, a California corporation

By: _____

Name: Richard J. Johnson

Title: EVP, CFO

EXHIBIT D

EMPLOYEE'S DISCLOSURE

Gentlemen:

1. Except for the information and ideas listed below that rightfully became part of my general knowledge prior to my first contact or communication with the Company or any of its affiliates or related entities, I represent that I am not in the possession of and have no knowledge of any information that can be considered the Proprietary Information of Impac Commercial Capital Corporation, a California corporation (the "Company"), other than information disclosed by Company or any of its affiliates or related entities during my employment negotiations or my prior employment with the

Company or any of its affiliates or related entities, which I understand and agree is the Proprietary Information of Company or its affiliates or related entities, as the case may be.

2. Except for the complete list of Inventions set forth below, I represent that I (in whole or in part, either alone or jointly with others) have not made, conceived, developed or first reduced to practice any Inventions relevant to the subject matter of my employment with the Company prior to my employment with the Company or any of its affiliates or related entities.

No Inventions

See below:

Additional sheets attached

WILLIAM D. ENDRESEN

IMPAC MORTGAGE HOLDINGS, INC.

GUARANTY

This Guaranty, dated as of May 1, 2006, is executed by Impac Mortgage Holdings, Inc., a Maryland corporation ("Guarantor"), in favor of William D. Endresen ("Executive").

A. Impac Commercial Capital Corporation, a California corporation ("Obligor"), concurrently herewith has entered into an Employment Agreement with Obligor dated even date herewith (the "Contract"). Guarantor is the parent corporation of Obligor and will receive direct and indirect benefits from the performance of the Contract.

B. Executive's willingness to enter into the Contract is subject to receipt by it of this Guaranty duly executed by Guarantor.

For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and intending to be legally bound, Guarantor hereby agrees with Executive as follows:

1. Guaranty.

(a) Guarantor unconditionally guarantees and promises to pay to Executive, or order, at Executive's address set forth in Section 4(a) hereof, on demand after the default by Obligor, in lawful money of the United States, any and all Obligations (as hereinafter defined) consisting of payments due to Executive. For purposes of this Guaranty the term "Obligations" shall mean and include all payments owed by Obligor to Executive of every kind and description, direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising pursuant to the terms of Section 2.3, 2.4, 3.1(a), 3.1(b), 3.1(c), or 3.2 of the Contract (as such Obligations may become due subject to the provisions of the Contract, including all notice requirements and cure provisions), including all interest, late fees, charges, expenses, attorneys' fees and other professionals' fees chargeable to Obligor or payable by Obligor there under and any costs of collection hereunder, including attorneys' and other professionals' fees.

(b) This Guaranty is absolute, unconditional, continuing and irrevocable and constitutes an independent guaranty of payment and not of collect ability (provided that it is subject to Obligor defaulting on any of the Obligations), and is in no way conditioned on or contingent upon any attempt to enforce in whole or in part any of Obligor's Obligations to Executive, the existence or continuance of Obligor as a legal entity, the consolidation or merger of Obligor with or into any other entity, the sale, lease or disposition by Obligor of all or substantially all of its assets to any other entity, or the bankruptcy or insolvency of Obligor, the admission by Obligor of its inability to pay its debts as they mature, or the making by Obligor of a general assignment for the benefit of, or entering into a composition or arrangement with, creditors. If Obligor or any permitted assignee or successor of Obligor shall fail to pay or

perform any Obligations to Executive which are subject to this Guaranty as and when they are due, Guarantor shall forthwith pay to Executive all such liabilities or obligations in immediately available funds. Each failure by Obligor to pay or perform any such liabilities or obligations shall give rise to a separate cause of action, and separate suits may be brought hereunder as each cause of action arises.

(c) Executive, may (subject to the provisions of the Contract) at any time and from time to time, without the consent of or notice to Guarantor, except such notice as may be required by applicable statute which cannot be waived, without incurring responsibility to Guarantor, and without impairing or releasing the obligations of Guarantor hereunder, (i) change the manner, place and terms of payment or change or extend the time of payment of, renew, or alter any Obligation hereby guaranteed, or in any manner modify, amend or supplement the terms of the Contract or any documents, instruments or agreements executed in connection therewith, (ii) exercise or refrain from exercising any rights against Obligor or others (including Guarantor) or otherwise act or refrain from acting, (iii) settle or compromise any Obligations hereby guaranteed and/or any obligations and liabilities (including any of those hereunder) incurred directly or indirectly in respect thereof or hereof, and may subordinate the payment of all or any part thereof to the payment of any obligations and liabilities which may be due to Executive or others, (iv) sell, exchange, release, surrender, realize upon or otherwise deal with in any manner or in any order any property pledged or mortgaged by anyone to secure or in any manner securing the Obligations hereby guaranteed, (v) take and hold security or additional security for any or all of the obligations or liabilities covered by this Guaranty, and (vi) assign its rights and interests under this Guaranty, in whole or in part.

(d) This is a continuing Guaranty for which Guarantor receives continuing consideration and all obligations to which it applies or may apply under the terms hereof shall be conclusively presumed to have been created in reliance hereon and this Guaranty is therefore irrevocable without the prior written consent of Executive.

(e) Guarantor may bring action to enforce Executive's obligations under the Contract if (i) any proceeding is brought against Guarantor to seek enforcement of this Guaranty or (ii) Guarantor makes any payment to Executive pursuant to this Guaranty.

2. Representations and Warranties. Guarantor represents and warrants to Executive that (a) Guarantor is a corporation duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or formation; (b) the execution, delivery and performance by Guarantor of this Guaranty are within the power of Guarantor and have been duly authorized by all necessary actions on the part of Guarantor; (c) this Guaranty has been duly executed and delivered by Guarantor and constitutes a legal, valid and binding obligation of Guarantor, enforceable against it in accordance with its terms, except as limited by bankruptcy, insolvency or other laws of general application relating to or affecting the enforcement of creditors' rights generally.

3. Waivers.

(a) Guarantor, to the extent permitted under applicable law, hereby waives any right to require Executive to (i) proceed against Obligor or any other guarantor of Obligor's obligations under the Contract, (ii) proceed against or exhaust any security received from Obligor or any other guarantor of Obligor's Obligations under the Contract, or (iii) pursue any other right or remedy in the Executive's power whatsoever.

(b) Guarantor further waives, to the extent permitted by applicable law, (i) any defense resulting from the absence, impairment or loss of any right of reimbursement, subrogation, contribution or other right or remedy of Guarantor against Obligor, any other guarantor of the Obligations or any security; (ii) any defense which results from any disability of Obligor or the lack of validity or enforceability of the Contract; (iii) any right to exoneration of sureties which would otherwise be applicable; (iv) any right of subrogation or reimbursement and, if there are any other guarantors of the Obligations, any right of contribution, and right to enforce any remedy which Executive now has or may hereafter have against Obligor, and any benefit of, and any right to participate in, any security now or hereafter received by Executive; (v) all presentments, demands for performance, notices of non-performance, notices delivered under the Contract, protests, notice of dishonor, and notices of acceptance of this Guaranty and of the existence, creation or incurring of new or additional Obligations and notices of any public or private foreclosure sale; (vi) any appraisal, valuation, stay, extension, moratorium redemption or similar law or similar rights for marshalling; and (vii) any right to be informed by Executive of the financial condition of Obligor or any other guarantor of the Obligations or any change therein or any other circumstances bearing upon the risk of nonpayment or nonperformance of the Obligations. Guarantor has the ability to and assumes the responsibility for keeping informed of the financial condition of Obligor and any other guarantors of the Obligations and of other circumstances affecting such nonpayment and nonperformance risks.

4. Miscellaneous.

(a) Notices. All notices hereunder must be in writing and shall be sufficiently given for all purposes hereunder if properly addressed and delivered personally by documented overnight delivery service, by certified or registered mail, return receipt requested, or by facsimile or other electronic transmission service at the address or facsimile number, as the case may be, set forth below. Any notice given personally or by documented overnight delivery service is effective upon receipt. Any notice given by registered mail is effective upon receipt, to the extent such receipt is confirmed by return receipt. Any notice given by facsimile transmission is effective upon receipt, to the extent that receipt is confirmed, either verbally or in writing by the recipient. Any notice which is refused, unclaimed or undeliverable because of an act or omission of the party to be notified, if such notice was correctly addressed to the party to be notified, shall be deemed communicated as of the first date that said notice was refused, unclaimed or deemed undeliverable by the postal authorities, or overnight delivery service.

3

Executive:

William D. Endresen

Guarantor:

Impac Mortgage Holdings, Inc.
1401 Dove Street
Newport Beach, California 92660
Telephone:(949)475-3600
Facsimile:(949) 475-3969
Attention: Ronald Morrison, Esq., General
Counsel

With a copy to:

Richard K Zepfel, Esq.
Payne & Fears, LLP
4 Park Plaza Ste 1100
Irvine, CA 92614
Telephone: (949) 851-1100
Facsimile: (949) 851-1212

With a copy to:

Ernest W. Klatte, III, Esq.
Rutan & Tucker, LLP
611 Anton Blvd., 14th Floor
Costa Mesa, California 92626
Telephone: (714) 641-5100
Facsimile: (714) 546-9035

And

Patricio T.D. Barrera, ESQ.
Marcin Barrera LLP
1901 Avenue of the Stars
Suite 1900
Los Angeles, CA 90067
Telephone: (310) 286-1050
Facsimile: (310) 286-1070

(b) Nonwaiver. No failure or delay on Executive's part in exercising any right hereunder shall operate as a waiver thereof or of any other right nor shall any single or partial exercise of any such right preclude any other further exercise thereof or of any other right.

(c) Amendments and Waivers. This Guaranty may not be amended, modified, superseded, canceled, or any terms waived, except by written instrument signed by both parties, or in the case of waiver, by the party to be charged.

(d) Assignments. This Guaranty shall be binding upon and inure to the benefit of Executive and Guarantor and their respective successors and assigns; provided, however, that without the prior written consent of Executive, Guarantor may not assign its rights and obligations hereunder.

(e) Cumulative Rights, etc. The rights, powers and remedies of Executive under this Guaranty shall be in addition to all rights, powers and remedies given to Executive by virtue of any applicable law, rule or regulation, the Contract or any other agreement, all of which rights, powers, and remedies shall be cumulative and may be exercised successively or concurrently without impairing Executive's rights hereunder.

(f) Partial Invalidity. The provisions of this Guaranty are severable and if any one or more provisions is determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions, and any partially unenforceable provisions to the extent enforceable, shall nevertheless be binding and enforceable.

(g) Governing Law. This Guaranty is and shall be governed and construed in accordance with the laws of the State of California, regardless of any laws on choice of law or conflicts of law of any jurisdiction.

(h) Arbitration. To the fullest extent allowed by law, any controversy, claim or dispute between Executive and Guarantor (or any of its stockholders, directors, officers, employees, affiliates, agents, successors or assigns) relating to or arising out of this Guaranty will be submitted to final and binding arbitration in Orange County, California for determination in accordance with the American Arbitration Association's ("AAA") National Rules for the Resolution of Employment Disputes, as the exclusive remedy for such controversy, claim or dispute. In any such arbitration, the parties may conduct discovery to the same extent as would be permitted in a court of law. The arbitrator shall issue a written decision, and shall have full authority to award all remedies which would be available in court. The arbitrator shall be required to determine all issues in accordance with existing case law and the statutory laws of the State of California. Guarantor shall pay the arbitrator's fees and any AAA administrative expenses. In the event Executive files a claim to collect unpaid payments or benefits payable under Section 2.4 of the Contract, the prevailing party shall be awarded reasonable attorneys fees and costs. Any judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. **BY AGREEING TO THIS MUTUAL AND BINDING ARBITRATION PROVISION, BOTH EXECUTIVE AND GUARANTOR GIVE UP ALL RIGHTS TO TRIAL BY JURY.** This arbitration policy is to be construed as broadly as is permissible under relevant law. **EXECUTIVE AND GUARANTOR HAVE READ THIS SECTION 4(h) AND IRREVOCABLY AGREE TO ARBITRATE ANY DISPUTE IDENTIFIED ABOVE.**

Executive's Initials /s/ WDE Guarantor's Initials /s/ RJJ

(i) Entire Agreement. This Guaranty contains the entire agreement of the parties relating to the subject matter hereof, and the parties hereto have made no agreements, representations or warranties relating to the subject matter of this Guaranty that are not set forth otherwise herein. This Guaranty supersedes any and all prior agreements, written or oral, with Guarantor relating to guaranteeing obligations under the Contract and any other subject matter of this Guaranty. Any such prior agreements are hereby terminated and of no further effect. The parties hereto agree that in no event shall an oral modification of this Agreement be enforceable or valid.

(j) Counterparts, Facsimile Signatures. This Guaranty may be executed in any number of counterparts, each of which shall be deemed an original for all purposes. This Guaranty may be executed by a party's signature transmitted by facsimile ("fax"), and copies of this Guaranty executed and delivered by means of faxed signatures shall have the same force and effect as copies hereof executed and delivered with original signatures. All parties hereto may rely upon faxed signatures as if such signatures were originals. Any party executing and delivering this Guaranty by fax shall promptly thereafter deliver a counterpart signature page of this Guaranty containing said party's original signature. All parties hereto agree that a faxed signature page may be introduced into evidence in any proceeding arising out of or related to this Guaranty as if it were an original signature page.

(k) Rules of Construction. This Guaranty has been negotiated by the parties and is to be interpreted according to its fair meaning as if the parties had prepared it together and not strictly for or against any party. References in this Guaranty to "Sections" refer to Sections of this Guaranty, unless the context expressly indicates otherwise. References to "provisions" of this Guaranty refer to the terms, conditions, restrictions and promises contained in this Guaranty. References in this Guaranty to laws and regulations refer to such laws and regulations as in effect on this date and to the corresponding provisions, if any, of any successor law or regulation. At each place in this Guaranty where the context so requires, the masculine, feminine or neuter gender includes the others and the singular or plural number includes the other. Forms of the verb "including" mean "including without limitation" unless the context expressly indicates otherwise. "Or" is inclusive and includes "and" unless the context expressly indicates otherwise. The introductory headings at the beginning of Sections of this Guaranty are solely for the convenience of the parties and do not affect any provision of this Guaranty.

(l) No Employment With Guarantor. Executive understands and agrees that he is an employee of Obligor pursuant to the Contract. Executive further understands and agrees that neither this Guaranty nor any obligations performed hereunder shall change any employee status that Executive may have with Guarantor.

IN WITNESS WHEREOF, Executive and Guarantor have executed this Guaranty as of the day and year first above written.

GUARANTOR

Impac Mortgage Holdings, Inc.

By: /s/ Richard J. Johnson

Name: Richard J. Johnson

Title: Executive Vice President

EXECUTIVE

By: /s/ William D. Endresen

William D. Endresen

The following table displays our ratio of earnings to fixed charges and ratio of earnings to combined fixed charges and preferred stock dividends for the periods shown: (1) (2)

IMPAC MORTGAGE HOLDINGS, INC.
RATIO OF EARNINGS TO FIXED CHARGES AND RATIO OF EARNINGS TO
FIXED CHARGES AND PREFERRED STOCK DIVIDENDS
(dollar amounts in thousands)

	For the Six Months Ended June 30, 2005	For the Six Months Ended June 30, 2006	For the Year Ended December 31,				
			2005	2004	2003	2002	2001
Net earnings (loss)	112,023	98,063	240,607	244,187	147,430	41,918	(7,469)
Add: Fixed charges	440,569	\$ 652,928.35	\$ 1,048,661.77	\$ 413,584.38	\$ 209,469.97	\$ 127,850.52	\$ 108,223.85
Net earnings (loss) plus fixed charges	552,592	750,991	1,289,269	657,771	356,900	169,769	100,755
Fixed charges	440,569	\$ 652,928	\$ 1,048,662	413,584	\$ 209,470	\$ 127,851	\$ 108,224
Preferred stock dividends	7,248	7,344	14,530	3,750	—(3)	—(3)	1,575
Total fixed charges and preferred stock dividends	447,817	\$ 660,272	\$ 1,063,192	417,334	\$ 209,470	\$ 127,851	\$ 109,799
Ratio of earnings to fixed charges	1.25x	1.15x	1.23x	1.59x	1.70x	1.33x	—(4)
Ratio of earnings to combined fixed charges and preferred dividends	1.23x	1.14x	1.21x	1.58x	1.70x	1.33x	—(4)

(1) Earnings used in computing the ratio of earnings to fixed charges consist of net earnings before income taxes plus fixed charges. Fixed charges include interest expense on debt and the portion of rental expense deemed to represent the interest factor.

(2) Financial information for the years ended December 31, 2003 to 2001 reflects accounting restatements and reclassifications for prior periods. In addition, prior to the consolidation of IFC on July 1, 2003, the method used to calculate the ratio of earnings to fixed charges and preferred stock dividends reflects the consolidated net earnings of IMH less net earnings of IFC plus dividend distributions from IFC to IMH.

(3) No preferred stock dividends were paid during this period as IMH did not have any preferred stock outstanding.

(4) Earnings were insufficient to cover fixed charges. The amount of the deficiency for the year ended December 31, 2001 was \$7.5 million.

SUBSIDIARIES OF THE REGISTRANT

Name of the Subsidiary	State of Incorporation
Impac Funding Corporation*	California
Impac Warehouse Lending Group, Inc.	California
IMH Assets Corp.	California

* Image Funding Corporation owns 100% of the common stock of Impac Secured Assets Corporation, a California corporation, and Impac Commercial Capital Corporation, a California corporation. Impac Funding Corporation does business in various states under the following names: Impac Lending Group and Impac Home Loans.

CERTIFICATION

I, Joseph R. Tomkinson, certify that:

1. I have reviewed this report on Form 10-Q of Impac Mortgage Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Joseph R. Tomkinson

Joseph R. Tomkinson
Chief Executive Officer
August 9, 2006

CERTIFICATION

I, Gretchen D. Verdugo, certify that:

1. I have reviewed this report on Form 10-Q of Impac Mortgage Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
 - d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Gretchen D. Verdugo

Gretchen D. Verdugo
Chief Financial Officer
August 9, 2006

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the report of Impac Mortgage Holdings, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOSEPH R. TOMKINSON

Joseph R. Tomkinson
Chief Executive Officer
August 9, 2006

/s/ GRETCHEN D. VERDUGO

Gretchen D. Verdugo
Chief Financial Officer
August 9, 2006

A signed original of this written statement required by Section 906 has been provided to Impac Mortgage Holdings, Inc. and will be retained by Impac Mortgage Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
